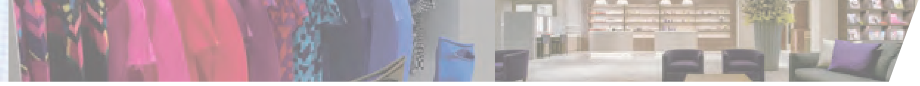
PARCO

Integrated Report 2018



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.

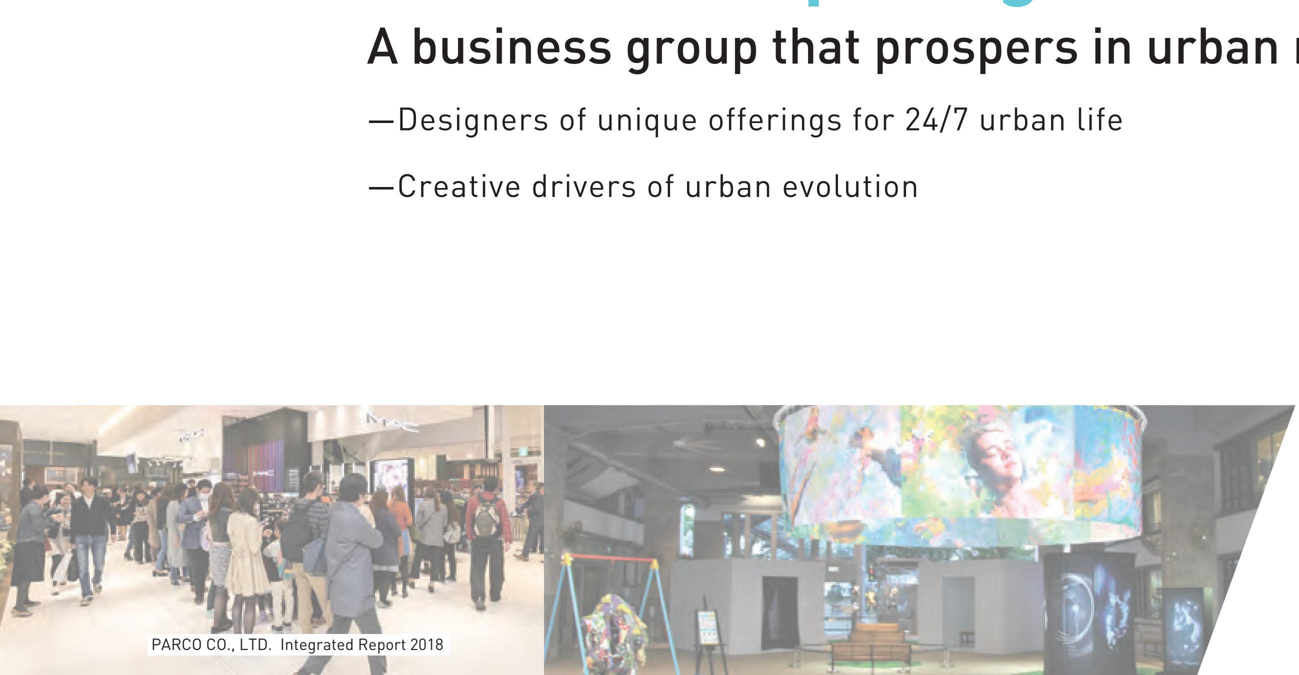
Our employees are constantly seeking to create new value that surpasses what customers expect in order to provide a space where people can feel happy and inspired.

PARCO Group Long-term Vision

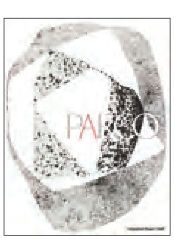
A business group that prospers in urban markets

—Designers of unique offerings for 24/7 urban life

—Creative drivers of urban evolution



CONTENTS



"PARCO Integrated Report 2018" 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" 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 image is a close-up of the white section of the Shibuya intersection, with the texture of the indented white lines like wrinkles. These represent the embryonic form of PARCO and Tokyo, which are soon to undergo a major rebirth.

From the fiscal year ended February 2018, PARCO has adopted the International Financial Reporting Standards (IFRS) in place of the previous Japanese standard. Previous years financial results that were announced under the Japanese standard have been restated to conform with IFRS. 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.

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.

1970s

Ikebukuro PARCO opened as an innovative collective retail format. Shibuya PARCO contributed to the creation of the street and town from the time of its opening by creating the environment of the adjacent street, Via PARCO (Park Street). Moreover, the opening of Shibuya PARCO was contemporaneous with the opening of Seibu Theater (which changed its name to PARCO Theater in 1985), which gave rise to a new wave in Japanese theater by producing its own theater performances.

1969 Opened Ikebukuro PARCO

1973 Opening event of Shibuya PARCO, customers carried to Shibuya PARCO by carriage

1980s

Shibuya PARCO PART 3 opens, offering lifestyle goods in addition to fashion, and high-quality live music venue CLUB QUATTRO also opens. Nagoya PARCO also opens and matures together with the town, offering a new style of consumption in Nagoya as a "24-hour shopping complex" offering CLUB QUATTRO, a show-pub, and a hotel.

1981 The first Afternoon Tea opened inside Shibuya PARCO PART 3

1988 Opened Shibuya CLUB QUATTRO

1989 Opened Nagoya PARCO

1990s

LOGOS GALLERY, which adjoins the sophisticated book store, PARCO BOOK CENTER, hosts academic exhibitions for enthusiasts. The newly opened CINE QUINTO presents unique, high-quality domestic and foreign films of all genres with the concept of "providing global entertainment," thereby discovering and transmitting new culture.

1991 Opened LOGOS GALLERY

1993 Tokyo FM Shibuya Spain Hill Studio opened inside Shibuya PARCO PART 1

1999 Opened CINE QUINTO

2000s

NEUVE A CO., LTD. starts the Retail Business and makes advances with developing store openings as well as refurbishing existing stores to provide new lifestyles and forward-thinking value to mature urban consumers. In the entertainment business, the company actively stages PARCO-produced performances at PARCO Theater and theaters around Japan, contributing to cultural promotion by expanding the film production and licensing business as well.

2000 Musical "The Orchestra Pit" Written and directed, and lyrics written by Koki Mitani

2008 Opening of first COMPLETE WORKS Tokyo, a new format of men's variety shop

2008 Opened Sendai PARCO

2010s

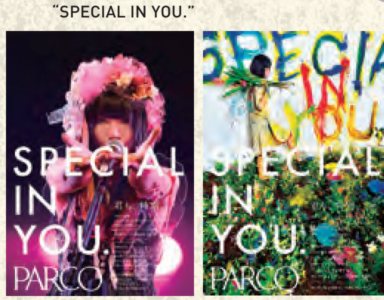
Strengthened our presence in urban markets by promoting the new business model of the ZERO GATE Business and opening the new brand PARCO_ya, using our advanced proprietary ICT to provide new consumer experiences. Decided to rebuild Shibuya PARCO as a center for disseminating fashion, art and culture.

2011 Female creative talent-led cultural event Shibukaru Festival

2011 Started ZERO GATE business

2013 Introduced "P-WALL" giant digital signage display at Shibuya PARCO

2014 Launched PARCO Corporate Message "SPECIAL IN YOU."



2019

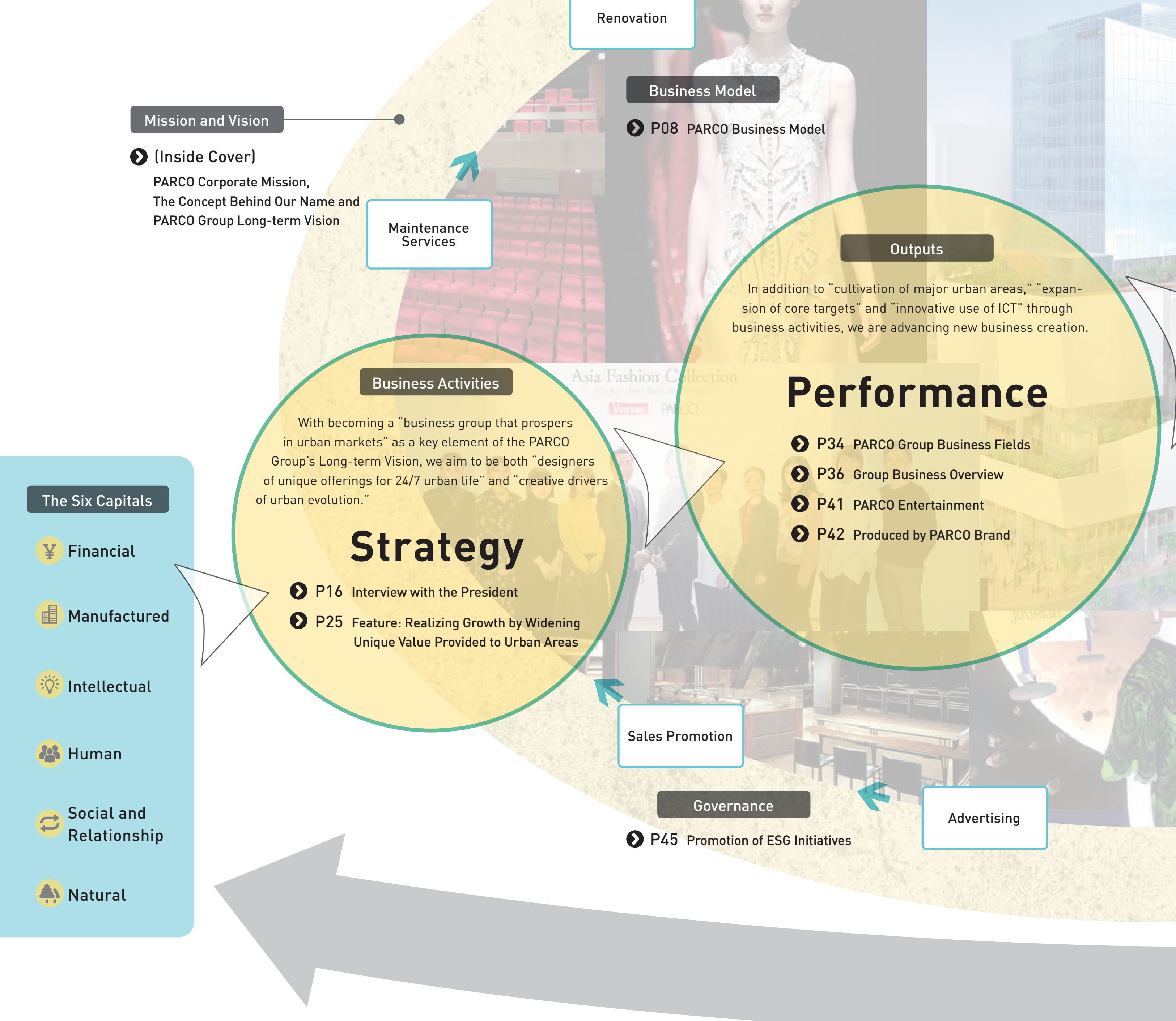
Launch of new Shibuya PARCO

2015 Decision to rebuild Shibuya PARCO

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.



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

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

- **Operating profit: ¥11.7 billion**
- **Annual dividend per share: ¥23**

Manufactured

PARCO stores that are welcoming, forward-thinking, and innovate

- **PARCO complexes: 18*[1]**
  ZERO GATE complexes: 9*[2]
  Complexes under development: 6
  (As of May 31, 2018)

*1 Including Shibuya PARCO, which is temporarily closed for redevelopment
*2 Including Harajuku ZERO GATE, which opened in March 2018

Intellectual

Improving operational value

- **Fixed-point observation of street fashion: 446 times** (As of February 28, 2018)

Human

Enhancing human resources and client value

- **Percentage of female managers: 13.0%**
  (As of February 28, 2018)

Social and Relationship

Customer understanding, confidence and trust

- **Number of SNS followers: about 1.5 million**

Natural

Creating commercial spaces with minimal environmental footprint

- **Electricity consumption at existing stores: 29.9% reduction compared with fiscal 2010**

To Our Stakeholders

Realizing Next-Generation Commercial Space

The PARCO Group's Corporate Mission is "Creating welcoming, forward-thinking, innovative spaces that provide an enjoyable experience for customers and help our tenants prosper." Since our foundation, we have provided creative stimulation for urban consumers through the culture business and new lifestyle proposals with a focus on fashion. These efforts have been channeled through the PARCO Group's three social roles: "Incubation," "Urban Revitalization," and "Trends Communication." We will use PARCO as a space for creativity, drawing in new talented people and expanding their circle of creativity, leading in turn to the creation of the next culture. Amid the changing times and economic climate, and even transformation in consumer trends, we are constantly advancing the creation of culture. This is the essence of PARCO and its point of origin.

Since my appointment as president, I have used the phrase "evolving from our point of origin" to drive our business forward as I believe it is important to think closely about our starting point and to evolve. In 2014 we established the PARCO Group Long-term Vision to give concrete form to our Corporate Mission, aiming to be both "designers of unique offerings for 24/7 urban life" and "creative drivers of urban evolution." Based on our strategies for realizing the PARCO Group Long-term Vision, we formulated our Medium-term Business Plan (FY2017-2021) in 2017, with a focus on increasing the unique value we provide to urban areas. Under the plan, we are promoting business selection and concentration and accelerating the pace of business portfolio reform. In fiscal 2017, we made steady progress under the Medium-term Management Plan, opening a store under the new brand PARCO_ya in Ueno, combining the operational strengths of the PARCO Group and the operational assets of the J. Front Retailing Group. We also decided to open a PARCO_ya in the Daimaru Shinsaibashi North Building.

Shibuya PARCO is the origin of the PARCO Group. In fall of 2019, it will be reborn as a next-generation global shopping center. In fiscal 2018, we will continue to accelerate business promotion based on the Medium-term Business Plan, utilizing the essence generated by the New Shibuya PARCO in the Urban Complex Group and experimenting with various new initiatives. These measures are the creative essence of the New Shibuya PARCO, and by extending this essence to PARCO complexes and Group businesses throughout the country, we aim to create next-generation commercial space and further promote the evolution of the PARCO store brand.

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

July 2018

PARCO CO., LTD.
President and Representative Executive Officer
Kozo Makiyama

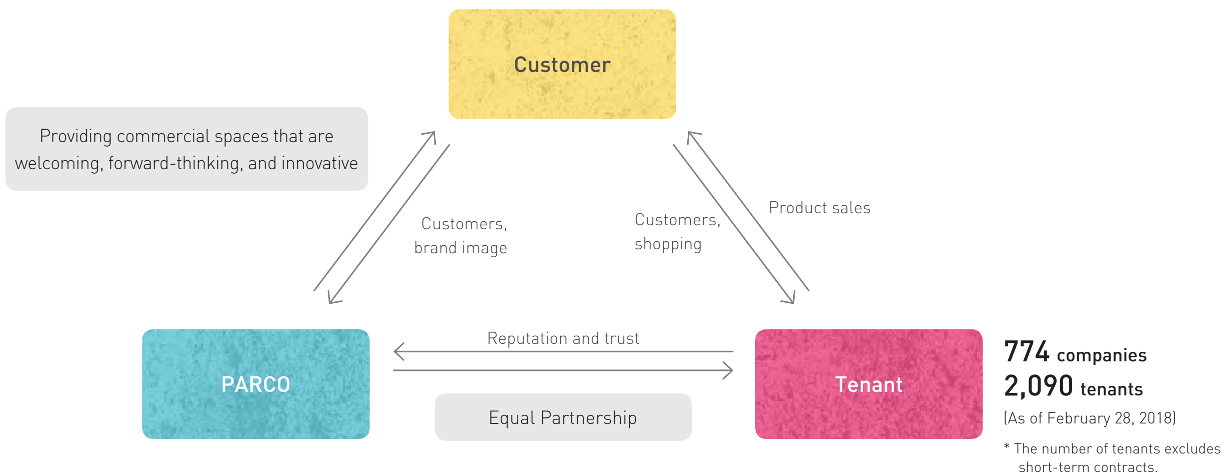
PARCO Business Model

Equal Partnership

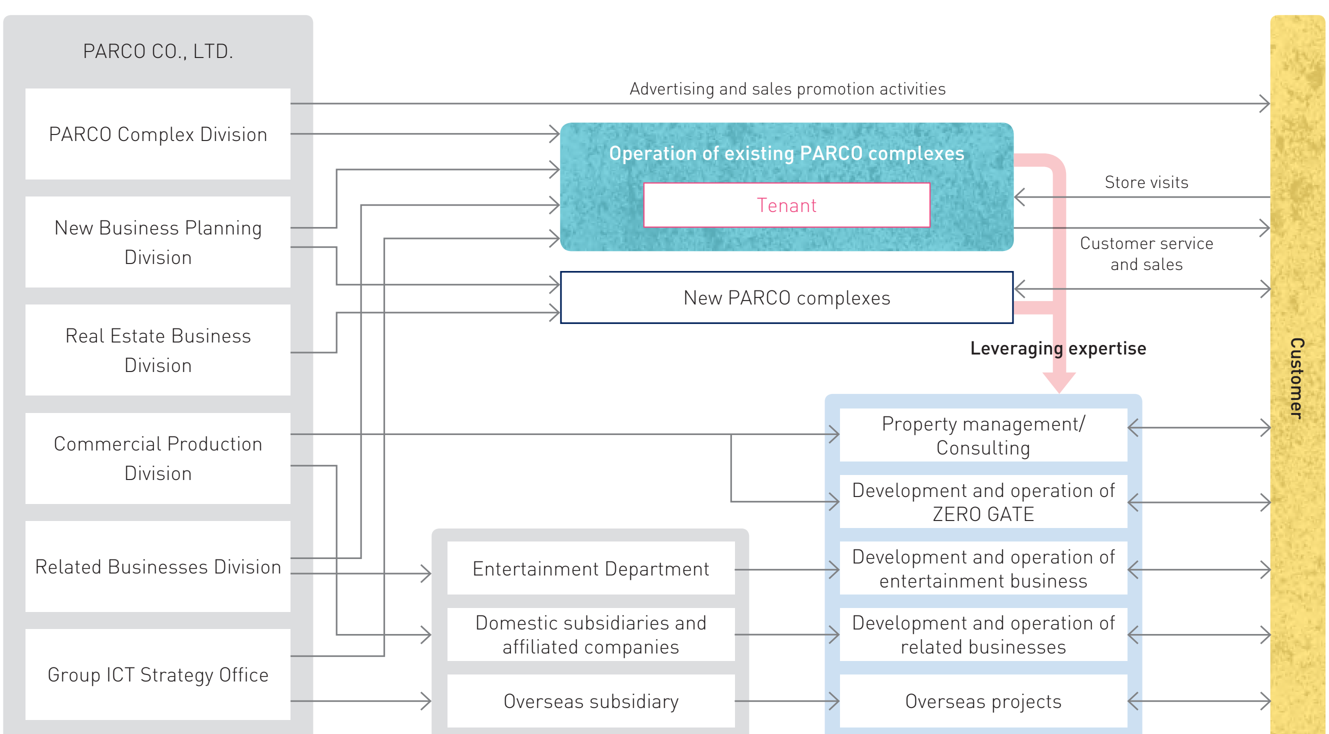
One of the main characteristics that distinguishes the PARCO Group's core Shopping Complex Business is our equal partnership with tenants. We view our tenants as partners with whom we can grow and develop by virtue of our mutually shared values. Every one of our corporate divisions at PARCO headquarters 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 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 in New Businesses



Strong in Comprehensive Shopping Complex Production

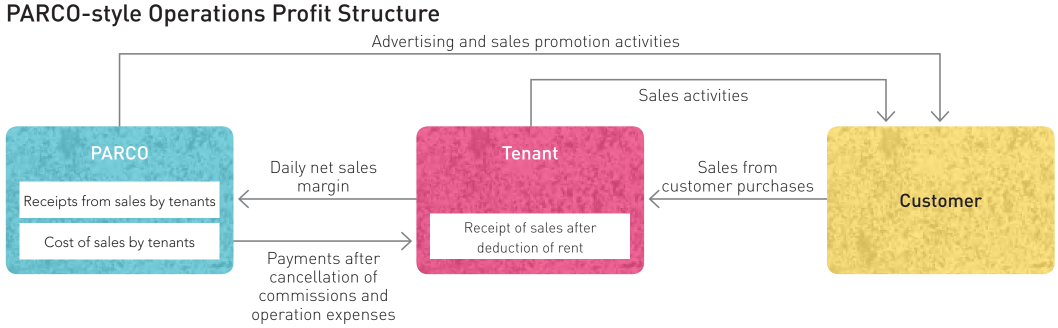
The production of shopping complexes involves marketing in the area of the store, planning the building from the proposal stage onward, the selection of tenants and design of environments that fit the concept, and the store's management. At the same time, we enhance customer appeal through advertising 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

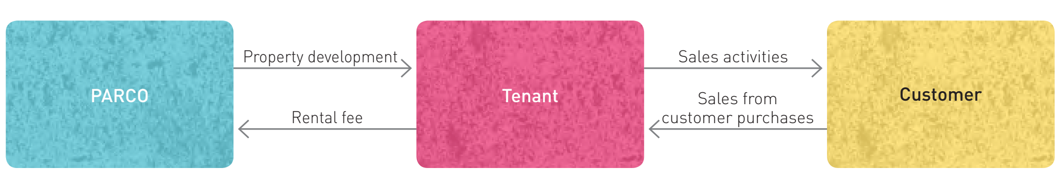
Under store lease agreements, tenants conduct sales with the support of PARCO's advertising, sales promotion and other marketing activities. PARCO receives the revenue that these tenants generate through sales to customers as its net sales. After a certain period of time, PARCO pays tenants a commission 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

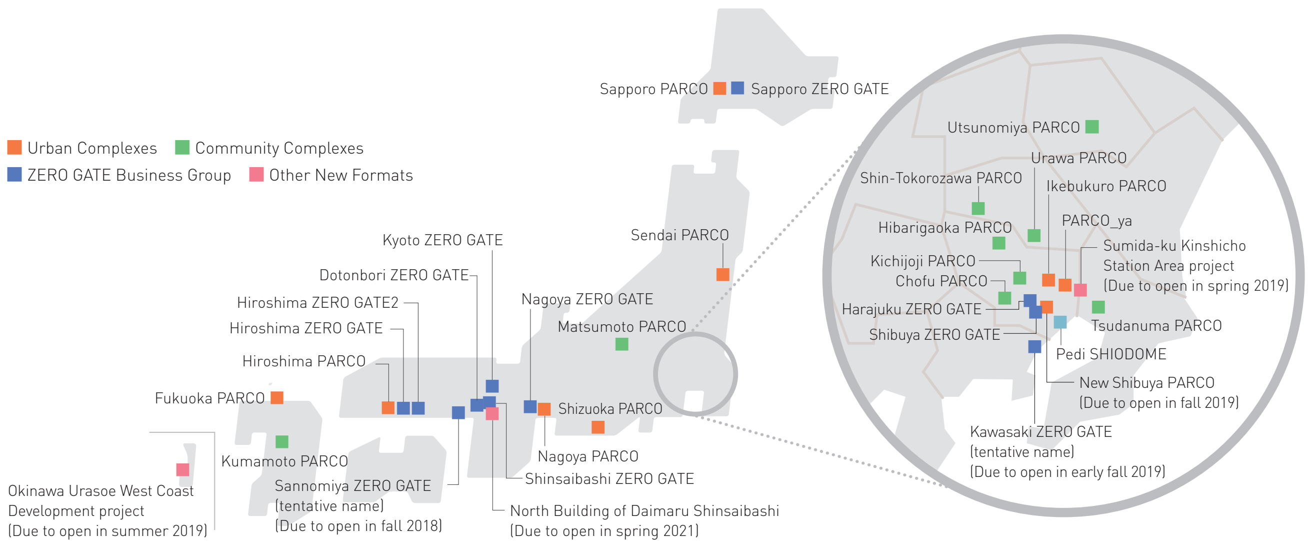


Development of Stores in the Shopping Complex Business

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

FY2017 Tenant Transaction Volume: ¥13,421 million

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

Sendai PARCO

FY2017 Tenant Transaction Volume: ¥20,030 million

1-2-3 Chuo, Aoba-ku, Sendai City, Miyagi
Main Building: B1F–9F
Open 23 August, 2008
Sendai PARCO2: 1F–9F
3-7-5 Chuo, Aoba-ku, Sendai City, Miyagi
Open 1 July, 2016
sendai.parco.jp

Ikebukuro PARCO

FY2017 Tenant Transaction Volume: ¥28,458 million

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

New Shibuya PARCO

Due to open in fall 2019

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

PARCO_ya

Open Saturday, 4 November, 2017

3-24-6 Ueno, Taito-ku, Tokyo
1F–6F
Open 4 November, 2017
parcoya-ueno.parco.jp

Shizuoka PARCO

FY2017 Tenant Transaction Volume: ¥10,600 million

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

Nagoya PARCO

FY2017 Tenant Transaction Volume: ¥34,671 million

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

Hiroshima PARCO

FY2017 Tenant Transaction Volume: ¥16,719 million

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

Fukuoka PARCO

FY2017 Tenant Transaction Volume: ¥22,243 million

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

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

FY2017 Tenant Transaction Volume: ¥3,061 million

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

Kichijoji PARCO

FY2017 Tenant Transaction Volume: ¥9,619 million

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

Urawa PARCO

FY2017 Tenant Transaction Volume: ¥24,618 million

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

Chofu PARCO

FY2017 Tenant Transaction Volume: ¥18,576 million

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

Shin-Tokorozawa PARCO

FY2017 Tenant Transaction Volume: ¥10,614 million

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

Matsumoto PARCO

FY2017 Tenant Transaction Volume: ¥7,278 million

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

Tsudanuma PARCO

FY2017 Tenant Transaction Volume: ¥10,682 million

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

Kumamoto PARCO

FY2017 Tenant Transaction Volume: ¥4,989 million

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

Hibarigaoka PARCO

FY2017 Tenant Transaction Volume: ¥8,162 million

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

* Tenant transaction volume includes fixed rate tenant sales.

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

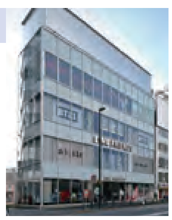
3-15-1 Minami-Nijo Nishi, Chuo-ku,
Sapporo City, Hokkaido
B2F, 1F–4F
Open 26 February, 2016

Shibuya ZERO GATE

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

Harajuku ZERO GATE

4-31-12 Jingumae, Shibuya-ku, Tokyo
1F–4F
Open 17 March, 2018

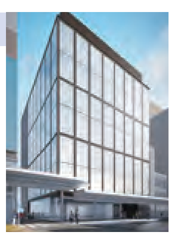


Nagoya ZERO GATE

3-28-11 Sakae, Naka-ku, Nagoya City, Aichi
1F–3F
Open 10 October, 2014

Kyoto ZERO GATE

83-1 Shijo Street Takakura Higashiiru, Tachiurinakanocho,
Shimogyo-ku, Kyoto City, Kyoto
B2F–7F
Open Open partially in November 2017



Pedi SHIODOME

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

Shinsaibashi ZERO GATE

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

Dotonbori ZERO GATE

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

Hiroshima ZERO GATE

2-7, Shintenchi, Naka-ku, Hiroshima City, Hiroshima
1F–3F
Open 10 October, 2013

Hiroshima ZERO GATE2

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

Sannomiya ZERO GATE (tentative name)

2-11-3 Sannomiya-cho, Chuo-ku, Kobe City, Hyogo
1F–4F
Due to open in fall 2018

Kawasaki ZERO GATE (tentative name)

1-1, etc., Ogawa-cho, Kawasaki-ku,
Kawasaki City, Kanagawa
1F–2F
Due to open in early fall 2019

Other New Formats

Sumida-ku Kinshicho Station Area project

4-27-14 Kotobashi, Sumida-ku, Tokyo
Planned opening area
Current LIVIN building: 1F–7F
(the name will be changed)
Annex: 3F–6F
Due to open in spring 2019
www.parco.co.jp/kinshicho/

Okinawa Urasoe West Coast Development project

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

North Building of Daimaru Shinsaibashi

1-8-3 Shinsaibashi-suji, Chuo-ku, Osaka City, Osaka
B2F–7F
Due to open in spring 2021

As of May 31, 2018
* Images of properties prior to opening are renderings.

Consolidated Financial and Non-Financial Highlights

Operating profit surpassed the forecast

¥11.7 billion

Profit declined year on year due to the temporary closure of Shibuya PARCO and the closing of Chiba PARCO and Otsu PARCO. However, the company made steady progress on the Medium-term Business Plan (FY2017-2021), and operating profit surpassed the forecast.

Increase in annual dividend planned for fiscal 2018

¥24 annual dividend

PARCO positions the return of profit to shareholders as one of its most important management policies. In fiscal 2017, our annual dividend per share was ¥23. For fiscal 2018, we plan to increase the annual dividend by ¥1 per share to ¥24.

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.

Renovated zone year-on-year tenant transaction volume comparison

126.7%

We actively introduced new formats, based on the themes of food (food products and restaurants) and cosmetics, which are growing markets. Furthermore, we carried out renovations in response to the growth in the service consumption resulting from initiatives in lifestyle-related homewares and new service formats.

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.

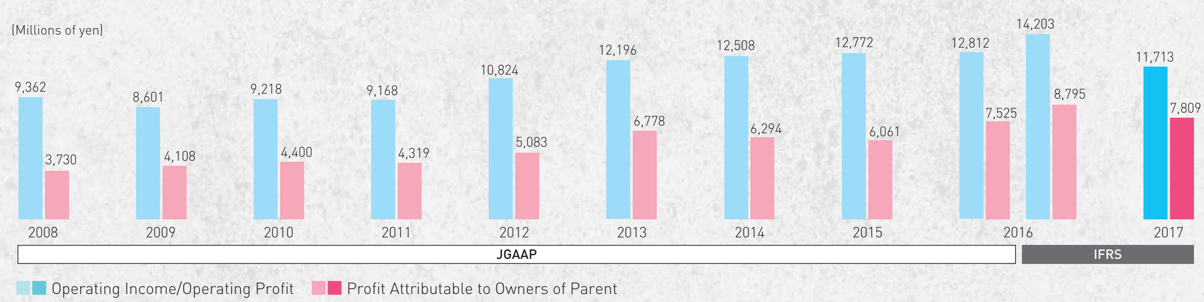
Electricity consumption

at existing stores compared to FY2010*1

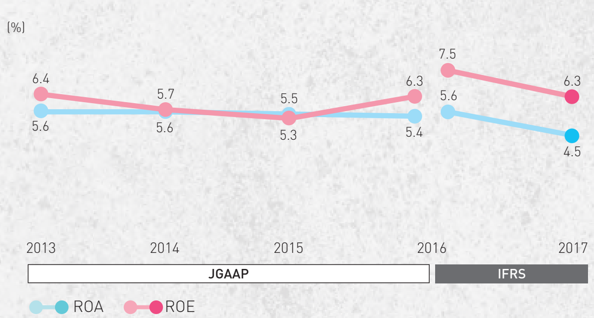
Down 29.9%

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.

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



ROA*2/ROE



For long-term numerical data and other indices, please refer to the PARCO website and FACTBOOK 2018

[Investor Relations]
www.parco.co.jp/en/ir/

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

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

[FACTBOOK 2018]
www.parco.co.jp/en/ir/library/financial/factbook.php

*1 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.

*2 Raito of ordinary income to total assets (Return on Assets)=Ordinary Income/Total Assets (average of start and end of year values) ×100/
Ratio of profit before tax to total assets (Return on Assets)=Profit Before Tax/Total Assets (average of start and end of year values) ×100

Eleven-Year Financial and Non-Financial Summary

JGAAP/IFRS	JGAAP Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010
Consolidated				
Net Sales/Operating Revenue	286,788	282,509	261,076	264,840
Operating Gross Profit	44,083	44,976	42,019	42,024
Selling, General and Administrative Expense	33,992	35,614	33,417	32,806
Business Profit*1	-	-	-	-
Operating Income/Operating Profit	10,090	9,362	8,601	9,218
Operating Income Ratio/Operating Profit Ratio	3.5	3.3	3.3	3.5
Ordinary Income	9,973	9,171	8,554	8,750
Profit Before Income Taxes/Profit Before Tax	9,173	6,248	7,053	7,717
Profit Attributable to Owners of Parent	5,167	3,730	4,108	4,400
EBITDA*2	14,676	14,953	14,189	15,837
Total Assets	189,989	191,681	187,093	222,135
Equity/Total Equity Attributable to Owners of Parent*3	73,912	75,592	78,632	81,844
Interest-Bearing Debt (%)	33,065	40,777	38,487	73,447
Equity Ratio/Ratio of Total Equity Attributable to Owners of Parent (%)	38.9	39.4	42.0	36.8
Debt-to-Equity Ratio (times)	0.45	0.54	0.49	0.90
Return on Assets (ROA) (%)*4	5.4	4.8	4.5	4.3
Return on Equity (ROE) (%)	7.2	5.0	5.3	5.5
Net Cash Provided by Operating Activities	12,705	2,713	8,921	12,025
Net Cash Used in Investing Activities	(6,611)	(14,148)	(7,405)	(42,290)
Free Cash Flows	6,093	(11,434)	1,516	(30,265)
Capital Expenditure	10,163	14,306	7,796	43,553
Depreciation and Amortization/Depreciation and Amortization Expense*5	4,585	5,591	5,588	6,618
Basic Earnings per Share (Yen)	62.73	45.29	49.87	53.41
Cash Dividend per Share (Yen)	15.00	16.00	16.00	17.00
Non-consolidated				
Sales Floor Areas (m^2)	425,600	447,500	444,500	454,000
Area Renovated (m^2)	49,000	34,000	36,000	45,000
Renovation Effect (Year-on-year by zone) (%)	117.1	117.8	110.9	120.4
PARCO Card Sales Amounts	40,702	44,706	44,371	45,115
PARCO Card Holders (People)	1,542,591	1,564,331	1,574,888	1,618,616
Number of POCKET PARCO Downloads	-	-	-	-
Society (Non-consolidated)				
Percent of Female Employees (%)	40.5	42.0	45.2	44.5
20s (%)	51.1	54.0	61.2	62.2
30s (%)	47.8	52.3	54.5	49.7
40s (%)	30.9	34.5	36.4	38.6
50s or over (%)	20.3	19.4	20.4	24.8
Number of Female Managers (People)	11	12	12	9
Percentage of Female Managers (%)	7.6	10.7	7.6	7.8
SNS Followers (People)	-	-	-	-
Environment (Non-consolidated)				
Electricity Consumption at Existing Stores Year-on-year (%) *6	-	96.9	98.3	97.7
Total Water Consumption at Existing Stores Year-on-year (%) *6	-	96.1	99.7	98.1
CO_2 Emissions at Existing Stores Year-on-year (%) *6	-	109.1	102.4	98.2
Recycling Rate (%)	52.59	54.74	58.49	62.34

*1 Business profit=Operating gross profit – Selling, General and Administrative Expense
*2 EBITDA=Operating Profit + Depreciation and Amortization Expense
Depreciation accounted under Selling, General and Administrative Expenses is used for EBITDA calculated under JGAAP, and Depreciation and Amortization Expense listed in the consolidated statements of cash flows is used for EBITDA calculated under IFRS.
*3 Equity is calculated based on Net Assets and Non-controlling Interest.
Total Equity Attributable to Owners of Parent is calculated based on Total Equity and Non-controlling Interest.

					(Millions of yen)	IFRS	(Millions of yen)
Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2016	Fiscal 2017
259,789	264,779	264,384	269,889	276,358	268,373	93,780	91,621
41,625	42,567	43,776	45,269	46,655	45,446	31,302	29,263
32,456	31,742	31,580	32,760	33,883	32,633	18,505	18,979
-	-	-	-	-	-	12,797	10,284
9,168	10,824	12,196	12,508	12,772	12,812	14,203	11,713
3.5	4.1	4.6	4.6	4.6	4.8	15.1	12.8
8,966	10,329	12,013	12,499	12,673	13,253	-	-
7,333	9,102	11,283	10,582	10,137	11,829	13,669	11,455
4,319	5,083	6,778	6,294	6,061	7,525	8,795	7,809
15,508	16,926	18,052	18,402	19,010	18,189	19,502	17,372
208,697	206,243	220,757	226,830	236,315	250,323	248,806	261,835
84,555	103,573	108,823	113,211	116,474	122,039	120,600	126,311
59,536	37,375	50,424	45,229	54,518	58,099	58,162	52,820
40.5	50.2	49.3	49.9	49.3	48.8	48.5	48.2
0.70	0.36	0.46	0.40	0.47	0.48	0.48	0.42
4.2	5.0	5.6	5.6	5.5	5.4	5.6	4.5
5.2	5.4	6.4	5.7	5.3	6.3	7.5	6.3
11,274	13,938	9,864	15,281	14,652	12,901	7,690	21,386
(584)	(2,139)	(27,886)	(7,612)	(19,325)	(10,098)	(4,961)	(11,552)
10,689	11,798	(18,022)	7,668	(4,673)	2,802	2,729	9,834
3,395	5,632	36,330	10,532	23,487	18,723	18,723	12,895
6,339	6,101	5,856	5,894	6,238	5,377	5,298	5,659
52.49	54.44	66.81	62.04	59.75	74.17	86.69	76.97
17.00	18.00	18.00	18.00	20.00	23.00	23.00	23.00
443,000	442,600	442,600	451,000	456,000	409,000	409,000	389,000
64,000	53,000	44,000	46,000	40,000	55,000	55,000	35,000
132.2	117.4	111.0	118.6	116.6	112.7	112.7	126.7
44,738	49,214	52,465	56,478	58,158	58,539	58,539	56,091
1,612,634	1,614,637	1,643,027	1,754,321	1,885,972	1,990,970	1,990,970	2,031,988
-	-	-	23,797	273,274	540,234	540,234	781,538
43.6	43.1	43.7	43.4	43.8	42.5	42.5	43.7
60.1	59.2	58.5	58.2	56.8	56.2	56.2	54.9
47.9	46.4	49.2	47.4	50.3	49.0	49.0	52.4
40.6	39.8	42.2	44.6	44.6	43.1	43.1	44.4
24.6	24.6	28.3	29.3	29.8	30.2	30.2	30.3
9	13	16	17	16	19	19	21
7.6	9.2	11.2	11.6	10.6	12.1	12.1	13.0
-	-	480,684	1,027,045	1,206,903	1,217,630	1,217,630	1,541,355
84.1	98.0	97.3	95.0	98.8	97.8	97.8	98.1
89.7	91.6	99.6	97.0	98.0	95.2	95.2	97.5
82.8	99.4	104.2	90.8	94.0	100.0	100.0	97.1
66.08	66.51	66.71	67.29	67.69	68.29	68.29	68.95

*4 Raito of ordinary income to total assets (Return on Assets)=Ordinary Income/Total Assets (average of start and end of year values) ×100/
Ratio of profit before tax to total assets (Return on Assets)=Profit Before Tax/Total Assets (average of start and end of year values) ×100

*5 Depreciation and Amortization Expense in the Consolidated Statements of Cash Flows is the total including depreciation of cost of revenues at PARCO stores as well as depreciation of Selling, General and Administrative Expense.

*6 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, the closing of Otsu PARCO and the opening of PARCO_ya, excluding tenant areas.

Interview with the President

Q/1 What is your view of the changes in the management environment, and how will you respond to them?

It's Important to Expand the Unique Value That We Provide.

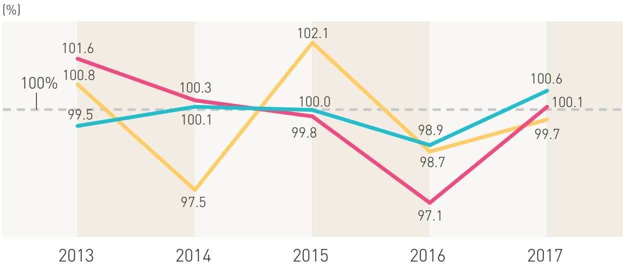
A. Within the retail sector in 2017, we saw big-ticket consumption among the high-income segment, encouraged by high share prices, and a recovery in consumption by overseas visitors to Japan. While some facilities such as urban department stores benefited from this, the regions and suburban areas continued to face a harsh consumption environment, with a series of store closures and so forth. Apparel goods faced headwinds in all sectors, but year-on-year growth was reported by department stores for the first time in three years, and by shopping centers for the first time in two years. At department stores, we captured inbound demand for cosmetics, with inbound sales reaching a record high. At shopping centers, ladieswear sales struggled, but food and beverages, general merchandise, and services trended upward. However, every sector saw a year-on-year decline in the regions, and the prominent trend this year was one of polarization between the cities and the regions. Meanwhile, the e-commerce market continues to expand, with transactions between individual consumers via smartphone becoming commonplace and showing strong activity.

Regarding changes in consumption trends, we are seeing increasing recognition of the sharing economy, where people share goods and services with others, a trend which is growing among the younger generation in particular. Sharing services are spreading into diverse areas including sharing goods, typified by fashion rental such as apparel, bags, and watches; sharing space, for example offices and conference rooms; and sharing transportation, including cars and bicycles. With the wider use of SNSs such as Instagram, "photogenic" consumption has become an everyday phenomenon, while the increase in working women is spurring the use of SNSs as a space for self-expression, such as self-improvement or self-investment, and we are seeing this trend expand into experiential consumption such as travel, health, and hobbies. On the other hand, values around physical goods are changing, with a shift in focus from the traditional brand value towards social consumption as values have diversified into areas such as organic, eco, and hand-made. The spread of smartphones has started to erase the boundary between private use of real-world and Internet stores, and while the ratio of real stores engaging in e-commerce is on the rise, there is also a move towards e-commerce formats entering the real store sector.

Within this mix of risks and opportunities, the PARCO Group has advantages that make sustainable growth possible. The first is the Group's comprehensive capabilities, enabling it to produce everything necessary to maintain the attractiveness of its commercial facilities, from research and planning, to tenant leasing and presentation, advertising, sales promotion, and renovation. The second is the PARCO Group's unique philosophy of equal partnership. We recognize tenants as partners with whom we can grow together, sharing our values as we grow and develop. This philosophy also extends to store lease agreements, where we have developed a profit structure beneficial to both parties. We have also organized the PARCO Association, comprised of tenant stores, who work together as one, aiming to contribute to the community and achieve mutual prosperity. I believe it is important that we widen our unique provision of value by leveraging these strengths to steadily execute the strategies of our Medium-term Business Plan (FY2017-2021).

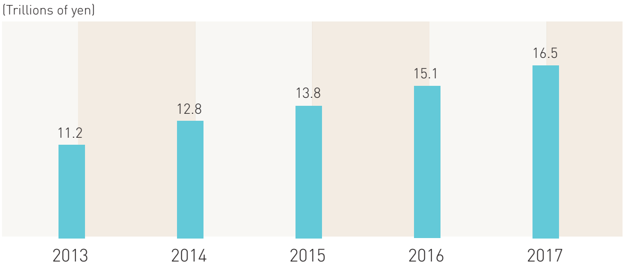
The fiscal 2018 annual general meeting of the PARCO Association comprised of tenant stores

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

Q/2 Could you give an overview of the PARCO Group Long-term Vision and Medium-term Business Plan (FY2017-2021)?

Aiming to Realize a Business Group That Prospers in Urban Markets.

A. To firmly grasp these changes in Japan and overseas and translate them into business opportunities, we established the PARCO Group Long-term Vision in fiscal 2014, which is to become "A business group that prospers in urban markets." To achieve this vision, we formulated the Medium-term Business Plan for fiscal 2017-2021 based on Three Business Strategies; and we are now executing Three Tactics: "Evolve the store brands, "Produce commercial real estate," and "Expand soft content."

To promote the Three Tactics, we have defined Four Directions to advance our initiatives. Through these, 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.

Positioning of the PARCO Group Long-term Vision and Medium-term Business Plan (FY2017-2021)

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

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

Medium-term Business Plan (FY2017-2021)

Realizing Growth by Widening Unique Value Provided to Urban Areas

Three Tactics

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

Four Directions

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

Two steps toward growth

Overview of the Medium-term Business Plan (FY2017-2021)

Realizing Growth by Widening Unique Value Provided to Urban Areas

Tactic 1

Evolve the store brand

Strengthen urban stores

Create the New Shibuya PARCO

Advancing a scrap-and-build policy for stores

Diversify tenant services

Provide enjoyable experiences

Tactic 2

Produce commercial real estate

Expand ZERO GATE business
- Expand areas
- Evolve formats

Diversify business categories
- PARCO format
- New formats
- Street-level properties, etc.

Diversify development methods
- Joint ventures, cyclical real estate model, etc.

Provide solutions
- Business owners
- Tenants

Tactic 3

Expand soft content

Content creation

Entertainment

Lifestyle proposals

Incubation

PARCO Group ICT integration and development Increase awareness of the PARCO brand in Asia (inbound and outbound)

Business portfolio innovation

Q/3 What is your evaluation of the first year of the Medium-term Business Plan (FY2017-2021) and the Group's progress?

Steady Progress on the Three Tactics

A. In fiscal 2017, the first year of the Medium-term Business Plan (FY2017-2021), we promoted scrap-and-build initiatives based on business selection and concentration. For example, in August we closed Otsu PARCO, while in November we partially reopened Kyoto ZERO GATE. In addition, in line with the J. Front Retailing Group's Urban Dominant Strategy, we opened a store under our new brand, PARCO_ya, in Ueno as a joint project with Daimaru Matsuzakaya Department Stores Co., Ltd. We decided to open a store in the North Building of Daimaru Shinsaibashi in spring of 2021 and promoted business aimed at expanding our provision of value in urban areas.

Looking at the Group's operating results for fiscal 2017, we saw an impact from the full-year contribution of Sendai PARCO2, the opening of PARCO_ya, and growth in orders received for construction work in the Space Engineering and Management Business. However, this was outweighed by the impact from the temporary closure of Shibuya PARCO (August 2016), and the closures of Chiba PARCO (November 2016) and Otsu PARCO (August 2017) and other factors. As a result, operating revenue was ¥91,621 million, down 2.3% from the previous fiscal year, while operating profit was ¥11,713 million, down 17.5%, mainly due to recording other income from the proceeds from the sales of property, plant and equipment in the previous fiscal year. Profit before tax was ¥11,455 million, down 16.2%, and profit attributable to owners of parent was ¥7,809 million, down 11.2%. Nevertheless, compared to the initial plan, operating profit was 1.0% higher, profit before tax 2.3% higher, and profit attributable to owners of parent 4.1% higher. The Group is therefore making steady progress on its management indicator targets under the Medium-term Business Plan.

Progress on management indicator targets

*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 Profit + Depreciation and Amortization Expense
*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

Specifically, in terms of Tactic 1 of the Three Tactics, "Evolve the store brands," we have been taking steps to transform into a next-generation commercial facility. We experimented with introducing Siriusbot, a robot designed for use in commercial facilities and stores. The robot was trialed for providing guidance for customers in the stores and supporting tenant's inventory operations. I used the robot myself at the opening of PARCO_ya, and found that it helps to streamline operations and seems to provide customers with a new shopping experience. We also started a new service of analyzing store visitor numbers and characteristics (age and gender), to enhance our support services for tenants in a way that helps them to streamline their operations. Furthermore, we trialed services that utilize ICT such as 3D scanners and VR. I feel that these efforts represent steady progress towards realizing next-generation commercial facilities.

Under Tactic 2, "Produce commercial real estate," we have opened PARCO_ya and partially opened Kyoto ZERO GATE. In addition, in March 2018 we opened Harajuku ZERO GATE, our ninth property in the ZERO GATE format. Regarding future property developments, we have decided on plans to open new stores, namely Sannomiya ZERO GATE (tentative name), scheduled to open in fall of 2018; the Sumida-ku Kinshicho Station Area project, scheduled to open in spring 2019; and Kawasaki ZERO GATE (tentative name), scheduled to open in fall of 2019. We have already opened 3 of the 12 projects targeted under our Medium-term Business Plan, with confirmed plans to open a further 6 projects. With these initiatives, we are making solid progress on development in urban areas.

Tactic 3 is to "Expand soft content." Since December our crowd-funding service BOOSTER has been linked with the CAMPFIRE crowd-funding platform operated by CAMPFIRE, Inc. We started joint fund procurement together to further strengthen the incubation function and expand our business scale. We have also continued to hold the Shibukaru Festival, which has been providing a space for next-generation female creators to present their work since 2011, along with taking initiatives using the company's information dissemination centers. We decided to reopen the mini-theater CINE QUINTO in July 2018. As these examples show, we are moving steadily forward both in evolving our entertainment content and in creating new content.

These initiatives are the essence of New Shibuya PARCO, which we plan to open from fall 2019. After opening, by extending the essence generated by the New Shibuya PARCO to PARCO complexes and Group businesses throughout the country, I am confident that we will realize our Long-term Vision of becoming a "business group that prospers in urban markets."

For details, please refer to "Feature: Realizing Growth by Widening Unique Value Provided to Urban Areas" beginning on page 25.


President Makiyama using a Siriusbot

Progress on producing commercial real estate under the Medium-term Business Plan

	Target	Projects Opened/Planned		Opened/Scheduled 2017	2018	2019	2021	Remaining
PARCO Format	4 projects	3 projects	PARCO_ya	Nov.				1 project
			New Shibuya PARCO			Fall		
			North Building of Daimaru Shinsaibashi				Spring	
New Format	3 projects	2 projects	Sumida-ku Kinshicho Station Area project			Spring		1 project
			Okinawa Urasoe West Coast Development project			Summer		
ZERO GATE Format	5 projects	4 projects	Kyoto ZERO GATE	Nov.				1 project
			Harajuku ZERO GATE		Mar.			
			Sannomiya ZERO GATE (tentative name)		Fall			
			Kawasaki ZERO GATE (tentative name)			Early Fall		
Total	12 projects	9 projects (3 opened, 6 currently planned)						3 projects

Q/4 What is your outlook for fiscal 2018, the second year of the Medium-term Business Plan?

Revenues and Profit Set to Increase, Partly Reflecting the Opening of New Stores, such as PARCO_ya

A. We expect the Japanese economy to perform solidly against a backdrop of continuing improvements in corporate earnings and the employment and income environment, as well as growth in inbound demand. On the other hand, growth in consumer spending is expected to slow to a moderate pace as consumer sentiment declines, mainly among the younger segment. The PARCO Group's environment will be affected by changes in the role of real stores as e-commerce accelerates among apparel companies; diversification in consumption, such as service consumption and the sharing economy; the rapid advance of technology; and intensification of competition between commercial facilities.

Based on this forecast for environmental changes, the PARCO Group is looking ahead to fiscal 2019 as a year for future growth and successive store openings based on the Medium-term Business Plan (FY2017-2021). To achieve this, we will execute operational structure reforms in the stores business to improve our responsiveness to the times, originality, and profitability; promote digital transformation* in step with advances in technology; develop new stores and new businesses; and strengthen the business foundation. In doing so, we will strengthen the coordination of the PARCO Group while accelerating the advance of our business.

Operating results for fiscal 2018, the second year of the Medium-term Business Plan (FY2017-2021), are expected to reflect the impact of the closure of Otsu PARCO and increasing development costs from 2018 onward. As a result, operating profit is expected to increase slightly, and we are planning on increases in both operating revenue and business profit, mainly due to the impact of newly opened stores such as PARCO_ya.

* Digital transformation refers to the use of ICT to change people's lifestyles and business in a better direction.

Fiscal 2018 forecasts

(Millions of yen)

	Fiscal 2018 forecasts	Fiscal 2017 results	Change	Year on year
Operating revenue	96,000	91,621	4,378	104.8%
Business profit*1	10,750	10,284	465	104.5%
Operating profit	11,750	11,713	36	100.3%
Profit attributable to owners of parent	7,700	7,809	(109)	98.6%

*1 Business profit is calculated by deducting selling, general and administrative expense from operating gross profit.

Q/5 How do you view the social role of the PARCO Group?

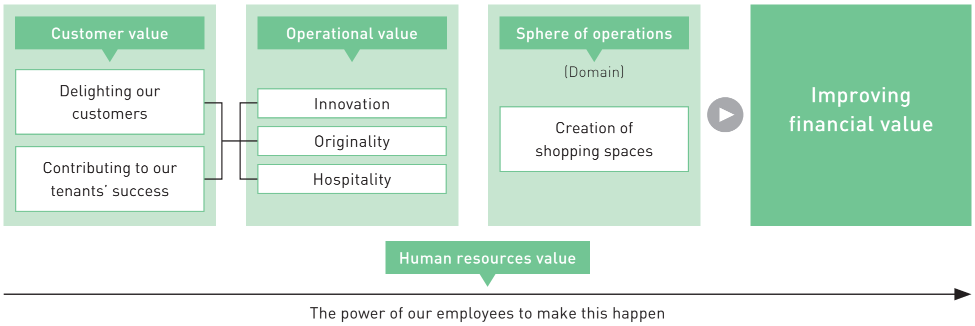
Promoting Sustainable Management Through "Incubation," "Urban Revitalization," and "Trends Communication"

A. I believe the social role of the PARCO Group is to evolve the points of origin that define PARCO, "Incubation," "Urban Revitalization," and "Trends Communication," while staying abreast of the changing times. Furthermore, by working through these three social roles to realize our Corporate Mission "Creating welcoming, forward-thinking, innovative spaces that provide an enjoyable experience for customers and help our tenants prosper," while earning the trust and satisfaction of our stakeholders, we will realize the PARCO Group's corporate social responsibility (CSR), which is really the foundation of our business. To systemize this approach and help bring our daily activities closer to the ideal of the Corporate Mission, we have set out the "Ten guidelines for PARCO employees and Five actions being taken by PARCO," which are promoted throughout the company. We hope to create value that will satisfy all of our stakeholders—customers, tenants, shareholders, and employees—and continue to provide this value. And we will aim to develop and grow as a result of these efforts.

For further information about the "Ten guidelines for PARCO employees and five actions being taken by PARCO," please visit the following website.

www.parco.co.jp/en/about/vision/guidelines.php

System diagram



In fiscal 2017, we introduced the new environment, society, and governance (ESG) perspective and actively conducted CSR activities.

In our "environment" initiatives, we have been working to reduce our energy usage, since this is linked to reducing CO_2, which causes global warming. We established an energy saving target of "a reduction of 1% or more from the previous fiscal year," and a recycling rate target of "higher than the previous fiscal year." We conducted energy saving measures by promoting a switch-over to LED lighting, achieving our target as we reduced energy usage by 1.9% from the previous fiscal year. Our recycling rate also achieved the target, rising by 0.8% year on year.

In our "society" initiatives, we are constantly working to discover and support the next generation of creators. We have also utilized IoT and the Internet to support tenant store companies. For example, we used ICT to create online training for employees before they are assigned to stores, and we support the operations of shop staff so that they can concentrate on providing customer service in-store. Each PARCO store conducts events linked to the local community and society. Among various events conducted in fiscal 2017, Tsudanuma PARCO opened an antenna shop operated by the local chamber of commerce, Hibarigaoka PARCO held culture events together with creators and schools based in Nishitokyo City and surrounding areas, and Hiroshima PARCO held the event "Pantastic!!" for showcasing selected products from around Japan, including a popular bakery from the suburbs, as well as apparel and general merchandise, and extended the impact of the event into other stores. We also took steps to improve the work-life balance of our employees, such as instituting a home work program for employees who have restricted working time due to reasons such as childcare and nursing care, and we are promoting diversity.


Hiroshima PARCO New Building 2nd floor
The "Pantastic!!" festival
Thursday, October 26 to Monday, November 6, 2017

In our "governance" initiatives, we have taken steps to strengthen the company's corporate governance. For example, in 2003 we adopted the "Company with Committees System" (later renamed "Company with Three Committees" System) with the goal of building a highly transparent system. Since fiscal 2016, we have been conducting assessments of the effectiveness of the Board of Directors for all directors and have disclosed the results and subsequent points for improvement on our website. In fiscal 2017, we collected information about the status of the Board of Directors, an evaluation of the status of improvements since the previous fiscal year's assessment, and opinions on how to enhance the Board's effectiveness going forward. We elicited points for improvement such as increasing the opportunities for communication between the director and the executive officers and adopting a structure for further enhancing pre-briefings and facilitating more precise responses to questions. In addition, we actively promoted issues such as fair disclosure and women's participation and advancement. Furthermore, under our Fundamental Policy for Corporate Governance, formulated in 2016, we have been promoting initiatives in response to the Corporate Governance Code. We have also abolished the corporate adviser system in order to make the management structure more transparent and clarify accountability with a view to further strengthening corporate governance.

In fiscal 2018, we will promote sustainable management, remaining mindful of the Sustainable Development Goals (SDGs) as a new perspective. Specifically, we will tackle issues proactively, recognizing that PARCO's social role is to create new value to which society can connect and constantly develop it.

For details, refer to "Promotion of ESG Initiatives" beginning on page 45.

Initiatives from the ESG perspective

E – Environment

- Achieve targets for electricity reductions and recycling rate
- Achieve reduction in electricity usage and utility cost
- All PARCO stores continuously register for energy saving action promoted by the Ministry of the Environment (raise environmental awareness)

S – Society

- Continuous discovery and support for the next generation of creators
- Support for tenant store companies using IoT and the Internet
- Links with local communities and society at each PARCO store
- Diversity promotion

G – Governance

- Adoption of "Company with Three Committees" system since 2003
- Elicited points for improvement from analysis and assessment of effectiveness of the Board of Directors
- Improved disclosure by enhancing the company website
- We have several female corporate officers and have improved the ratio of female managers

Q/6 What is your approach to shareholder returns?

We will provide stable profit returns to shareholders by achieving increases in corporate value

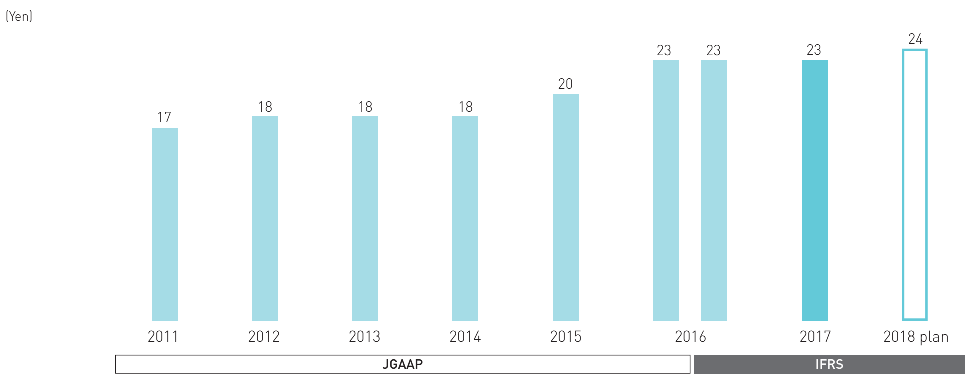
A. We view the return of profits to shareholders through the achievement of sustainable growth and medium- to long-term improvements in corporate value as one of our most important policies. In paying cash dividends from retained earnings, our basic stance is to pay a stable dividend to shareholders 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 2017, our annual dividend per share was ¥23, and the payout ratio was 29.9%. For fiscal 2018, we plan to pay ¥24, an increase of ¥1, with an expected payout ratio of 31.6%. We have also instituted various reward programs to make shopping at PARCO nationwide even more enjoyable for shareholders.

Visit our website for details on shareholder rewards.

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

Cash dividend per share and payout ratio



	2011	2012	2013	2014	2015	2016	2016	2017	2018 plan
Payout ratio	32.4%	33.1%	26.9%	29.0%	33.5%	31.0%	26.5%	29.9%	31.6%

Feature:

Realizing Growth by Widening Unique Value Provided to Urban Areas

The PARCO Group promotes business selection and concentration and accelerates the pace of business portfolio reform with the theme of increasing the unique value it provides to urban areas. To realize this growth, we are promoting various initiatives based on Three Tactics: "Evolve the store brand," "Produce commercial real estate," and "Expand soft content." These initiatives will form essential elements behind the creation of the New Shibuya PARCO, scheduled to open in the fall of 2019, and will lead to the provision of next-generation commercial spaces.

This feature section introduces specific examples of the Three Tactics and shares messages from PARCO partners.

Evolve the Store Brands

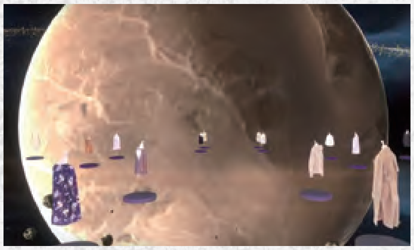
We will enhance unique tenant services and provide consumers with genuine retail experiences in order to create next-generation commercial spaces and stabilize earnings, aiming to further promote the evolution of the PARCO store brand.

New Shopping Experiences

VR and MR Create New Shopping Spaces

In March 2018, we participated in the SXSW Trade Show held in Austin, Texas, United States, by developing an exhibit of virtual reality (VR) shopping content on the theme of "Shopping in 2020" using the STYLY VR platform developed by Psychic VR Lab Co., Ltd. After the exhibition, in May we conducted a demonstration at the RUNWAY channel Lab. SHIBUYA store of MARK STYLER Co., Ltd., in the SR6 facility operated by PARCO. We aim to provide services that encourage sales by presenting fashion together with experiences that cannot be had in real space.

In the VR space, it is possible to design spaces that are free from constraints such as size and gravity. This enables us to express the brand concept, the designer's intention, and the seasonal theme as a space without having to create the physical decor. It also enables us to place 3D ensembles of apparel and accessories in the space. Moreover, arranging data within the space eliminates the need to hold actual apparel inventory and enables placement of a greater volume of stock than what is possible in a real store. Visitors can enjoy shopping surrounded by countless products, just like selecting products on an e-commerce website. Furthermore, by detecting the visitor's movement using sensors, it is possible for multiple people to share the VR space, enabling people to enjoy chatting with friends and looking at products while in the VR space.



Products can be placed in a virtual space that could not be constructed in a real space (rendering)

Message from Stakeholders

Psychic VR Lab Co., Ltd.
Nobuhiko Watanabe
Director and COO

We have worked together with PARCO to create a shopping experience of the future using next-generation VR and MR interfaces.

I think that PARCO's desire to spark innovation by incorporating advanced initiatives ahead of anyone else has created a new culture, and I'm delighted that we have achieved this together. I'm excited about the prospect of creating new shopping experiences and an even newer PARCO together, looking forward to 2020.

Promoting Digital Customer Services Using 3D Data

On Thursday, December 14, 2017, we introduced a 3D scanner at the RUNWAY channel Lab. SHIBUYA store at SR6. The scanner captures images of an object from multiple points to grasp its three-dimensional shape and converts them into data. We offered a service that allowed customers to capture 3D image data of their own clothing and view it on a web browser, and shop staff provided digital customer service using the 3D data, such as capturing ensembles of apparel in 3D and posting them on a website or social media.

A 3D scanner installed at SR6

* The service at SR6 finished at the end of May 2018.

Smartphone screen shot

* Customers receive gift vouchers according to the number of coins collected

Promoting Circulation through a Facility Using an App

PARCO WALKING COIN is a new function that measures the number of steps taken by users inside a facility and awards a coin when they reach a target number of steps. The system was introduced at PARCO stores nationwide on Monday, May 14, 2018, after an advance introduction at Urawa PARCO, Chofu PARCO, Fukuoka PARCO, and Tsudanuma PARCO. Visitors start the official PARCO smartphone app, POCKET PARCO, inside the facility and begin counting their steps. When they reach a target number of steps, they can obtain a coin. Adding a function that can be enjoyed inside the facility creates opportunities for customers to encounter store blogs and event information posted on the app when they are in the facility and to discover stores that they have never visited before as they walk around.

Utilizing Robots

Siriusbot
This initiative was selected as a Fiscal 2016 Public Offering Joint Research and Development Project by the Tokyo Metropolitan Industrial Technology Research Institute.

Robots Support Store Operations

The Siriusbot robot was jointly developed by 08 WORKS Inc. and Nihon Unisys, Ltd. specially to provide guidance to customers and assist employee operations in commercial facilities and retail stores. The robots were trialed at Ikebukuro PARCO in October 2017, PARCO_ya in November 2017, and Nagoya PARCO in May 2018. Siriusbot responds to customer inquiries in English or Japanese using both voice and screen and can guide customers to the store they seek. After closing time, Siriusbot patrolled the inside of the stores, collected data on tenant store stock inventories by reading electronic tags, and supported tenant staff in stocktaking operations.

Voice Guidance Service Using Smart Speaker

In November 2017, we developed PARCO Skills, a voice dialogue application specially designed for providing guidance in commercial facilities. The application works with the Amazon Alexa* cloud-based voice service provided by Amazon. By installing Amazon Echo smart speakers in stores and starting voice dialog guidance services, customers can use the application in-store as well as in their own homes.

On Tuesday, April 3, 2018, the speakers were installed at several locations inside Ikebukuro PARCO. The system can provide information about shops, restaurants, and available products, as well as responding to over 600 question variations, mainly based on frequently asked questions taken from records of daily inquiries compiled at the Information Center. The system was also installed at Nagoya PARCO on Thursday, May 17, and for a limited time until Monday, May 28, we trialed a service where customers requiring the assistance of a Siriusbot were able to call for one by talking to Amazon Echo.

*Amazon Alexa is the brain supporting Amazon Echo. It is built on a cloud platform and is constantly evolving.

Enhancing Tenant Services

Screen shot of the analysis screen

AI-Based Store Analysis Solution

ABEJA, Inc. provides a retail and distribution service for analyzing the number and characteristics of store visitors called ABEJA Insight for Retail. The service has now been introduced for tenant stores at PARCO_ya (with certain exceptions). The data obtained is used to quantitatively measure the impact of marketing initiatives such as promotions and events. We also provide the system to tenants as part of our services for them. Tenants use the system to increase operational efficiency by confirming trends in store visitor numbers at different times of the day, and on different days, helping the tenants to optimize their staffing systems. PARCO_ya is the first in Japan to introduce ABEJA Insight for Retail tenant service for all of its facilities.

Produce Commercial Real Estate

We are working to expand format variety by creating new formats alongside the existing PARCO and ZERO GATE formats with the goal of expanding sites primarily in urban areas with growth potential where we have not yet opened complexes.

Stores Opened in Fiscal 2017

The first PARCO format store in the east side of Tokyo, and the first in the 23 wards in Tokyo in 44 years

PARCO_ya opened

Opened Saturday, November 4, 2017

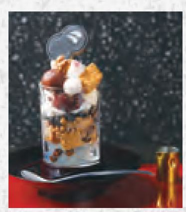
PARCO_ya, a new shopping complex brand, opened in the east side of Tokyo as the first PARCO format store to open in the 23 wards in Tokyo in 44 years. PARCO_ya opened on the first through sixth floors of Ueno Frontier Tower, which was built on the site of the former South Wing of Matsuzakaya Ueno. The store composition is designed to promote circulation with TOHO Cinemas Ueno on the 7th floor and the neighboring Matsuzakaya Ueno, and to satisfy a broad cross-section of customers who visit the Ueno and Okachimachi area, such as users of the offices on the upper levels.

Under the store concept of "a slightly up-market, sophisticated spot that's fun to visit with friends," PARCO_ya incorporates 52 stores opening in Tokyo's Ueno Okachimachi area for the first time, as well as 11 companies with strong ties to the local community. The facility aims to grow in step with the local market, for example by offering exclusive panda merchandise.

Proposing Topical Foods

We are meeting the needs of a wide range of customer segments, mainly with topical cafes, long-established local stores, and famous specialty stores. We are also introducing cafes to create communication spaces on each floor.


6th floor Ueno Yabusoba


1st floor KURIYA otona KUROGI
Kuromitsu kinako parfait

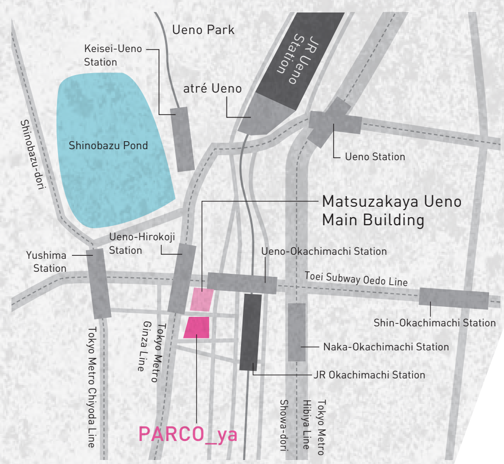
Exclusive PARCO_ya products sold in stores

Ueno has a strong association with pandas. The giant panda cub Xiang Xiang, which had its first birthday in June, 2018, has become increasingly popular. PARCO_ya is proposing panda-themed merchandise and menus at many stores to provide visitors with an exciting encounter with the highly individualistic pandas.


1st floor Smith
Left: Five-Partition A4 Folder
Right: Rollbahn L-size Notebook with Pocket


4th floor AYANOKOJI
Left: Shoulder Case with Clasp
Right: Card Case with Divisions and Clasp

* Sales of some items may have finished.



Message from Stakeholders

PARCO_ya

Shizuka Hattori

Manager

To create a "a slightly up-market, sophisticated spot that's fun to visit with friends" targeting sophisticated men and women in their 30s to 50s, we opened the new brand "PARCO_ya." To communicate the value of both "proposals that are completely new to the market" and "initiatives with long-standing local manufacturers," we strove to take a new approach in all areas, including promotions. The support we received for these efforts has exceeded our expectations and our collaboration with Matsuzakaya, which we have operated for many years, has helped to cement our position in the market.

Kyoto ZERO GATE

Opened partially in November 2017

Located adjacent to the Daimaru Kyoto department store, facing Shijo Street, Kyoto's commercial center, this facility opened on some of the upper floors in November 2017. With support from the local community, the facility aims to contribute to creating fresh appeal for the area.

Harajuku ZERO GATE

Opened in March 2018

This facility opened in March 2018 on Meiji Dori avenue in the Harajuku and Jingumae area, which has a high profile both in Japan and internationally. With a popular social media character merchandise store and a fitness gym, the facility contributes to the vibrancy of the district and helps to improve circulation through the area.

Scheduled Openings

PARCO Format

New Shibuya PARCO

Due to open in fall 2019

The New Shibuya PARCO is designed to be a next-generation global shopping center that will contribute to a vibrant atmosphere in the area around Shibuya Station, serving as a hub for nurturing and disseminating fashion and performing arts culture.

New Shibuya PARCO rendering

Message from Stakeholders

Shibuya Project

Sayoko Nakagawa

New Shibuya PARCO will combine a host of cultures including fashion, art, entertainment, food, and technology, aiming to provide a space for conceiving "something new" to provide surprise and excitement to the world.

My role is to propose store openings to prospective tenants. I have many opportunities to meet companies and people who are active and taking on challenges in all kinds of fields. Each meeting opens my eyes to a completely new world, which is tremendously stimulating and inspiring. As I make a fully committed drive in the lead up to fall of 2019, I feel a great sense of purpose in figuring out how to transmit this inspiration on to our customers.

North Building of Daimaru Shinsaibashi

Due to open in spring 2021

The North Building of Daimaru Shinsaibashi is located in Osaka's Shinsaibashi district, a leading commercial area in the Kansai region. The facility is to open there as a second joint venture with the J. Front Retailing Group. It will form a new local landmark for Shinsaibashi, combining a department store with a dedicated collection of fashion stores.

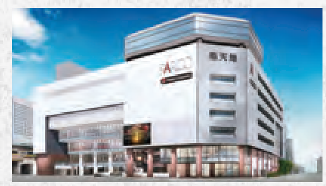
North Building of Daimaru Shinsaibashi rendering

New Format

Sumida-ku Kinshicho Station Area project

Due to open in spring 2019

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.



Sumida-ku Kinshicho Station Area project rendering

Okinawa Urasoe West Coast Development project

Due to open in summer 2019

We established a joint corporation with leading Okinawan retailer SAN-A CO., LTD. on Urasoe's west coast, which has excellent access. PARCO and SAN-A aim to create an attractive new shopping complex by fully exercising their respective strengths.

Okinawa Urasoe West Coast Development project rendering

ZERO GATE Format

Sannomiya ZERO GATE (tentative name)

Due to open in fall 2018

We decided to rebuild an existing building acquired in the Sannomiya area, Kobe's central commercial district. We plan to open a commercial facility designed to contribute to enlivening the Sannomiya district and creating new appeal.

Sannomiya ZERO GATE (tentative name) rendering

Kawasaki ZERO GATE (tentative name)

Due to open in early fall 2019

Kawasaki ZERO GATE is to be situated in a triangular plot bordered by the main road in front of JR Kawasaki Station and Shinkawa Street. We plan to open a commercial facility that will help to enhance the pleasure of walking in the town and enliven the local area.

Kawasaki ZERO GATE (tentative name) rendering

Expand Soft Content

We will work to evolve and create new entertainment content, the locus of PARCO's unique soft content. Further, the Group will play the role of incubator and collaborate with up-and-coming creators and companies to provide novel experiences to consumers.

Ikebukuro PARCO Main Building 7th floor
PARCO MUSEUM
March 2018 "Complete edition of Tokyo Creator's File Festival–Operation Grand Finale of the National Tour: Thank you and one more time"

Development Utilizing PARCO's Information Dissemination Centers

Ryuji Akiyama (ROBERT) Presents "Creator's File Festival"

"Tokyo Creator's File Festival Ikebukuro Creative Operation" produced by Ryuji Akiyama (ROBERT) was held at PARCO MUSEUM in Ikebukuro PARCO from Saturday, April 29 to Monday, May 22, 2017. The event featured content exclusive to the exhibition as well as multiple events in which Akiyama took the stage in a series of impersonations of various creators. It caught the attention of the public, drawing approximately 50,000 visitors in 24 days. Subsequently the event was held in Nagoya, Fukuoka, Sendai, Sapporo, and Hiroshima, drawing approximately 220,000 people in total nationwide, including spin-off events.

In response to the hit performance around the country, the complete version of the Tokyo Creator's File Festival was held at PARCO MUSEUM from Friday, March 2 to Monday, April 2, 2018, with updated exhibition content and products. Over 30,000 people attended, with a national cumulative total exceeding 250,000. On Thursday, February 22, 2018 around the same time, we collaborated again with a campaign at Ikebukuro PARCO that was used in a poster visual.

Furthermore, at THE GUEST cafe & diner, we held a collaboration cafe called Creator's File Cafe, which was run at sites throughout Japan, starting at Ikebukuro PARCO. Under the direction of Ryuji Akiyama (ROBERT), the collaboration menu featured 11 popular impersonated creators.

Looking ahead, we will produce a variety of content and provide customers with new consumption experiences using PARCO as a center for information dissemination.

PARCO's Cultural Information Dissemination Center

PARCO MUSEUM

www.parco-art.com

As part of the temporary closure of Shibuya PARCO, PARCO MUSEUM was relocated to the seventh floor of the Ikebukuro PARCO Main Building, then renovated and reopened in September 2016. Here it continues to create and curate diverse exhibitions and events transcending the existing categories of art, design and culture.

In 2017, the art museum has been transmitting culture in and outside Japan. Activities include the hit exhibition "Tokyo Creator's File Festival" in 2017, followed in November by an exhibition of the fashion brand ANREALAGE, which went on to tour Los Angeles in January 2018.

April 2017 Opening ceremony of the "Tokyo Creator's File Festival"

December 2017 Hiroshima PARCO live event with Ryuji Akiyama (ROBERT)

A Mini Theater Operated by PARCO

CINE QUINTO

www.cinequinto.com

CINE QUINTO was reopened on Friday, July 6, 2018. The mini theater operated by PARCO had been closed temporarily for the rebuilding of Shibuya PARCO. The cinema has screened unique, high-quality domestic and foreign productions of all genres under the concept of "Entertainment from around the world." The reopened cinema has been expanded from a one-screen to a two-screen theater, and has introduced pair seats that are unique in Shibuya with a view to making CINE QUINTO one of the area's most engaging movie theaters. In this role, the cinema will now work to provide live entertainment that delivers an authentic experience and sense of discovery. Based on the success of productions purchased and distributed by the company that have won support from many customers, PARCO will bring diverse foreign and domestic entertainment to Shibuya, including the high-quality artistic independent art productions with which it has come to be associated.

Going forward, CINE QUINTO will collaborate in multifaceted projects and events with the new Shibuya PARCO, working together as a facility that contributes to the vibrancy of the overall Shibuya district.

CINE QUINTO rendering

Location:
7F Shibuya Mitsuba Building, 20-11 Udagawa-cho, Shibuya, Tokyo

Seating:
162 seats / 115 seats + 1 wheelchair space per screen

Shibukaru Festival held in Hong Kong

A Presentation Space for the Next Generation of Women Creators

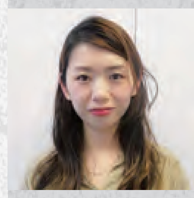
Shibukaru Festival

www.shibukaru.com

The Shibukaru Festival culture event has been held since 2011 with Shibuya PARCO as the main venue, aiming to provide young women creators the opportunity to show their work. Shibuya PARCO was closed in 2017, but GALLERY X BY PARCO on Spain Hill Street in Shibuya provided a space for the young women creators to display their work and contribute to information dissemination and creation of excitement in Shibuya. In addition, live events were held at Shibuya CLUB QUATTRO and Shibuya WWW (Live Performance), while the construction site of Shibuya PARCO in mid-rebuild was used as a venue for a fashion show for highly individual next-generation designers.

In May 2018, the event was held in Hong Kong, for the third time overseas following events in Singapore in 2013 and Bangkok in 2015. The event will further promote the presence of PARCO in overseas markets and we will link it to the opening of New Shibuya PARCO in fall of 2019, aiming to evolve into a center for transmitting culture and fashion not only in Japan, but to the whole world.

Message from Stakeholders



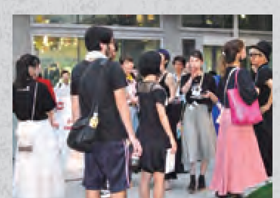
Urban Complex Group

Yui Sekiguchi

In charge of marketing

Our team has had numerous discussions about how to generate excitement around the Shibukaru Festival while Shibuya PARCO was temporarily closed for rebuilding. Through various discussions, we decided to hold the festival at the PMQ cultural facility in Hong Kong for several reasons: PARCO Shibuya attracted many visitors from Hong Kong; holding the event in Hong Kong would further increase recognition of PARCO; and it would provide an opportunity for young woman creators from Japan to display their work overseas.

For myself, the project presented several hurdles to overcome as I had never worked with an overseas company before. However, when the event was started, we had visits from many local customers and I could really feel that PARCO and the Shibukaru Festival gained increased recognition as a result. Going forward, I would like to communicate Japanese fashion and culture globally as well as in Japan and help to increase recognition of PARCO overseas.



A meeting with the Shibukaru creators at PMQ

October 2017 Shibukaru Festival main theater
GALLERY X BY PARCO

Culture Dissemination Center and Art Space

GALLERY X BY PARCO

www.parco-art.com

GALLERY X BY PARCO, opened in Shibuya in December 2016, will generate culture across genres, including art, music, fashion and anime, and send it out into Shibuya and beyond.

Sample from the "Minion Daidassou Cafe" collaboration cafe
Right: MINIONS CAFE custard pudding
Left: MINIONS prison break rice gratin

Collaboration Cafe

THE GUEST cafe & diner

www.the-guest.com

PARCO develops cafes tied in with various content such as popular characters, films and anime. Featuring themed menus, the cafes enable customers to engage in the unique worlds of particular works. There are now five* in operation around the country. In 2017, we started promoting overseas development with the "Minion Daidassou Cafe" opening for a limited period in Singapore, after "MINIONS CAFE" was so well received throughout Japan.

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

Message from Stakeholders

Entertainment Business Department

Hiroshi Yamazaki

In charge of content business Development Team

"Let's check out that thing going on at PARCO!" When I visit a commercial facility, I feel it's not so much when I want to buy clothes – more often I am attracted by an event that appeals to my senses or piques my interest. Through my work with the collaboration cafes, I am now involved in providing those attractions. What are customers looking for? I think about this every day as I plan events. That's why I always feel so nervous on the first day of an event wondering what will happen if no one turns up. So when I see several hundred people queuing up before the opening, I feel ecstatic. The attraction that I've been working on has elicited a real response from customers. This is a pleasure that can only be experienced in this job.

PARCO's Crowd-Funding Service

BOOSTER

https://camp-fire.jp/booster-parco

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 Jun 2018, PARCO concluded an alliance agreement and investment agreement with CAMPFIRE, Inc., operator of Japan's No. 1 crowd-funding platform CAMPFIRE. Through the alliance, both companies will jointly operate BOOSTER and work to achieve its further growth.

Managing Executive Officer Sensui for the New Business Planning Division talked with Representative Director and President Kazuma Ieiri of CAMPFIRE about his goals for the alliance.

From left: Representative Director and President Kazuma Ieiri of CAMPFIRE, Inc. and Managing Executive Officer Sensui of PARCO

Sensui: Now we have concluded an alliance agreement and investment agreement with Japan's No. 1 purchase-type crowd-funding provider CAMPFIRE, which is led by yourself, Mr. Ieiri, a successful entrepreneur who has started and grown several venture companies. With this alliance, the PARCO Group's crowd-funding will be jointly managed by CAMPFIRE and PARCO.

Ieiri: Thank you.

CAMPFIRE's mission is to "Democratize financing" and to "Keep small flames burning." I have felt a close affinity for some time with PARCO's crowd-funding activities in its social role of "Incubation."

Sensui: We at PARCO have also been a pioneer in crowd-funding here in Japan, and we have always had a respect and close interest in CAMPFIRE, which has the largest operation in Japan. Also, as a company that sees value in incubation, we have a strong sympathy for your vision of "creating small economic zones" through crowd-funding.

Ieiri: It really is a match made in heaven (Laughs).

I have a strong impression of PARCO that it is different from other commercial facilities in that it supports nascent talent from an early stage and actively collaborates with it. For example, the Shibukaru Festival provides a space for young female creators to showcase their work. I am a fan of this project and I have some of the artworks of creators who have exhibited in the festival. And in fact, some creators who have been in the Shibukaru Festival have started crowd-funding projects with CAMPFIRE. From that perspective, I expect that joint operation of crowd-funding by CAMPFIRE and PARCO will produce big synergies.

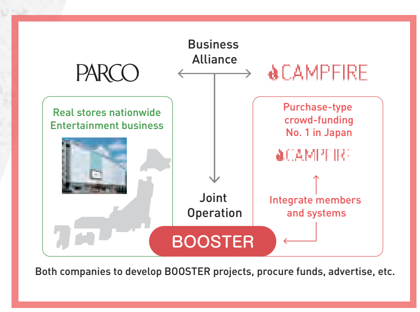
Sensui: CAMPFIRE posts over 6,000 crowd-funding projects every year, and no doubt they cover a wide range of genres. There do seem to be a large number of projects related to cultural fields such as art, fashion, and music, and to community contributions. Since PARCO has PARCO stores nationwide and an entertainment business, I hope that teaming up will enable us to support creators and contribute to regional revitalization while expanding our business.

Ieiri: Crowd-funding is a system for everyone from individuals to organizations to achieve their challenges through the Internet, regardless of scale. For those who are carrying out projects, the real start comes after they have collected funds through crowd-funding. By joining forces with PARCO, I think we will see significant benefits in terms of expanded possibilities for providing real spaces. Of course, there is also a great advantage in being able to promote projects in real space while collecting funds through crowd-funding.

Sensui: We can create a huge impact by combining the Internet service of crowd-funding with the real spaces of the PARCO Group, such as PARCO stores.

Ieiri: That's right. On the other hand, Japan is facing all kinds of issues, to the point where it has become known as a world leader in developed-country problems. I believe PARCO and CAMPFIRE can work together to provide solutions for problems facing regions and related industries. I hope that we can provide services that have a good impact on society as we help one another to realize our respective visions and missions.

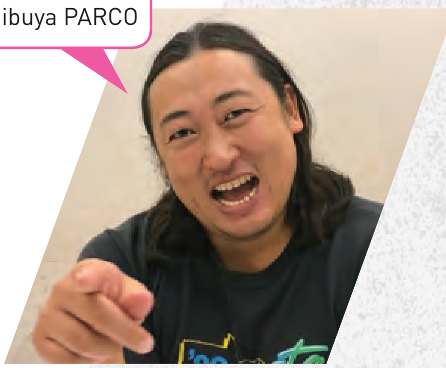
Sensui: Yes. Crowd-funding is a starting point for demonstrating the impact of our alliance over a range of fields. I hope that we can evolve it into a service that can contribute to stakeholders and society in general.



Messages from PARCO Partners

PARCO Partners have contributed messages about their expectations for New Shibuya PARCO.

Expectations for New Shibuya PARCO



Mixing with customers in costume as "Uesugi Michi" the child prodigy actor belonging to the Enkinho theater company.

Ryuji Akiyama (ROBERT)

Comedian

PARCO really helped me at the Creator's File exhibition. Starting at the PARCO MUSEUM at Ikebukuro PARCO then moving on to Nagoya PARCO, Fukuoka PARCO, Kumamoto PARCO, Sendai PARCO, Sapporo PARCO, Hiroshima PARCO, Matsumoto PARCO, Shizuoka PARCO, Peter PARCO picked a peck of Pickled PARCO... excuse me. My tongue ran away with me. At any rate, I really felt that the PARCO stores in every region took it in turns to work with us, each one making a big effort to ensure that we had an exciting event at every store. I'm really grateful for their help.

In 2019, New Shibuya PARCO is to be completed. I remember visiting the former Shibuya PARCO once, prior to my moving to Tokyo to pursue my career. I went by myself to see an exhibition of Yusaku Matsuda. I recall looking at clothes and general merchandise, even though I didn't know anything about them, and getting a little drunk on the experience of being in Tokyo and Shibuya (Laughs). Ever since then, I have always felt that Shibuya PARCO is Shibuya. People might associate Shibuya with all kinds of things: scramble crossing, Shibuya Center-gai Street, the Hachi-ko dog statue, Nishimura Fruits parlor, Guardian Angels, Kenji Ozawa, Minoru Ujita, Drug store Sanzenri – but I think the real heart of Shibuya is definitely Shibuya PARCO.

I'm really looking forward to the completion of New Shibuya PARCO. And I would be really delighted if New Shibuya PARCO let me put on a fun event someday too.

Tatekawa Shinosuke

Rakugo performer

PARCO Theater was the stage of my dreams. My connection to the theater goes back 20 years. I've had the privilege of performing rakugo there (including a one-month show for 11 of those years), and the birth of countless new rakugo stories such as "Kanki no Uta" (Ode to Joy) would never have happened without PARCO; moreover, the development of its unique presentation style, with its theatrical presentation in terms of art, sound, lighting, and even the lobby, is really thanks to the efforts of PARCO staff. That's right. PARCO is the home of the Shinosuke-style rakugo. I can't wait for the day when I can perform again in my newly rebuilt "home."

Expectations for New Shibuya PARCO

Expectations for New Shibuya PARCO

Susumu Sasaki

Chairman, PARCO Association
CEO & President, JUN Group

Shibuya PARCO is the origin of PARCO. It was an epoch-making store when it opened its doors in 1973, giving birth to the concept of a commercial facility for Japanese fashion, and it continued to evolve as a source for cultural dissemination over the years.

As a consumer, I have great expectations for the new start in fall of 2019. With the country's leading design capabilities, PARCO, of all companies, is certain to be reborn as a challenging and appealing facility that creates new surprises as a cultural dissemination point amid the dramatically changing fashion environment of today.

Strategy

PARCO Group Business Fields

PARCO Group Operating Revenue and Operating Profit 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

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.

PARCO_ya

Retail Business

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 186 store locations across Japan (as of February 28, 2018) and an online store. NEUVE A aims to expand earnings by enhancing its lineup of original goods, taking steps to develop new business formats, promoting the development of an omni-channel structure by accelerating its digital strategy, and strengthening marketing. (As of February 28, 2018, 137 non-PARCO locations, with 73.7% of locations outside of PARCO)

TiCTAC PARCO_ya store

Space Engineering and Management Business

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.

Tokyo Dome Bowling Center CuBAR LOUNGE
Space design, interior construction, lighting design, and advertising visuals

Other Business

Entertainment Business

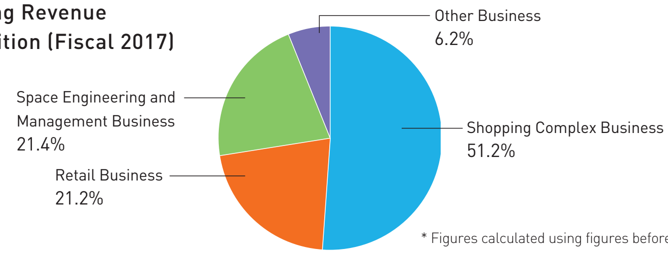
In the entertainment business, handled by PARCO CO., LTD., we produce a wide variety of compelling content for theater, music, movies and publications. Through this business, we disseminate information of the most popular topics of the day and create added value, which in turn enhances the PARCO brand.

Web-based Consulting Business

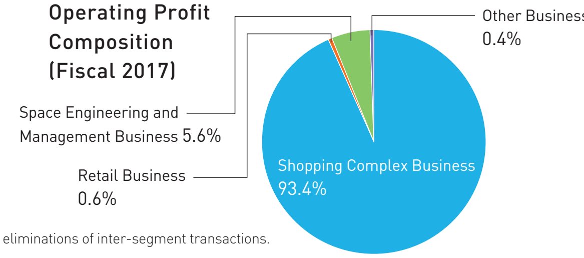
PARCO Digital Marketing Co., Ltd. handles our digital marketing business and provides support for use of ICT technologies at PARCO. In its core business of providing support for ICT use at commercial facilities, the company draws on the technological and operational capacities it has cultivated through ICT use at PARCO to provide store operation solutions for more than 150 commercial facilities and specialty stores.

Digital signage for PARCO_ya

Operating Revenue Composition (Fiscal 2017)



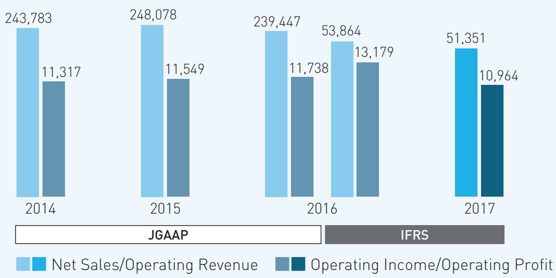
Operating Profit Composition (Fiscal 2017)



* Figures calculated using figures before eliminations of inter-segment transactions.

Net Sales/Operating Revenue and Operating Income/Operating Profit*

(Millions of yen)



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

PARCO CO., LTD.

www.parco.co.jp/en/

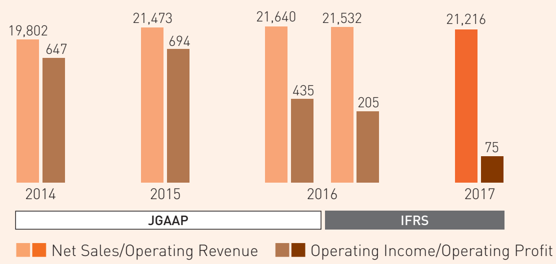
Head Office	8-16 Shinsen-cho, Shibuya-ku, Tokyo
Established	February 13, 1953
Operating Revenue	¥56,462 million
Operating Profit	¥11,016 million
Paid-in Capital	¥34,367 million
Employees	632
No. of Locations (PARCO/ZERO GATE)	18 locations*1 /9 locations*2

*1 Including Shibuya PARCO, which is temporarily closed for redevelopment.
*2 Including Harajuku ZERO GATE, which opened in March 2018

P36

Net Sales/Operating Revenue and Operating Income/Operating Profit

(Millions of yen)



NEUVE A CO., LTD.

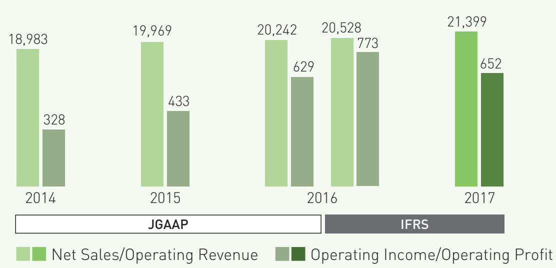
www.neuve-a.com

Head Office	8-16 Shinsen-cho, Shibuya-ku, Tokyo
Established	June 1, 2001
Operating Revenue	¥21,216 million
Operating Profit	¥75 million
Paid-in Capital	¥490 million
Employees	568
No. of Locations	186

P38

Net Sales/Operating Revenue and Operating Income/Operating Profit

(Millions of yen)



PARCO SPACE SYSTEMS CO., LTD.

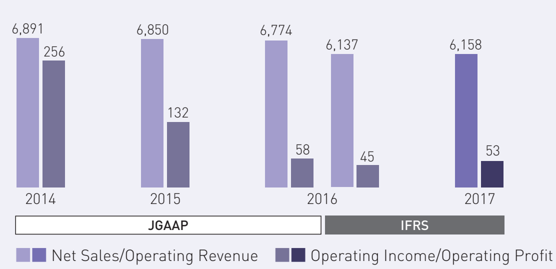
www.parco-space.co.jp

Head Office	8-16 Shinsen-cho, Shibuya-ku, Tokyo
Established	April 1, 1969
Operating Revenue	¥21,399 million
Operating Profit	¥652 million
Paid-in Capital	¥490 million
Employees	910
No. of Locations	32

P39

Net Sales/Operating Revenue and Operating Income/Operating Profit*

(Millions of yen)



* 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
Operating Revenue	¥882 million
Operating Profit	¥68 million
Paid-in Capital	¥10 million
Employees	62

P40

Shopping Complex Business

Operating Revenue: ¥51,351 million Operating Profit: ¥10,964 million

PARCO CO., LTD.

www.parco.co.jp/en/

Achievements and Challenges in Fiscal 2017

In the Shopping Complex Business in fiscal 2017, we strengthened our reorganization and measures for individual stores, aiming to achieve two types of development: Urban Complexes and Community Complexes. We actively introduced new retail formats, based on market growth themes in food (food products and restaurants) and in cosmetics. Furthermore, in response to the growth in service consumption resulting from initiatives in lifestyle-related homewares and new service formats, we renovated approximately 35,000 m^2 of floor space across all our stores. PARCO tenant transaction volume in this refurbished area grew by 26.7% year on year.

On the sales planning front, we continued to strengthen membership acquisition for POCKET PARCO, the official smartphone app that forms the foundation of our CRM measures. Also, in conjunction with PARCO Card-linked promotions, transaction volume of highly loyal Class S PARCO Card members at existing stores increased by 7.5% year on year. With regard to use of ICT, we conducted a trial introduction of Siriusbot, a robot designed for use in commercial facilities and stores, to help transform them into next-generation commercial facilities. The robot was trialed for providing guidance for customers in the stores and supporting tenant's inventory operations.

On our mobilization projects, we held the first exhibition produced by Ryuji Akiyama (ROBERT), "Creator's File Festival," and spin-off projects from the exhibition at each store, which helped to increase the number of store visitors and transaction volume. We also held "ANREALAGE EXHIBITION 'A LIGHT UN LIGHT'", an exhibition by ANREALAGE, and other topical attractions.

Themes for Fiscal 2018

In fiscal 2018, we will prepare for the opening of New Shibuya PARCO scheduled for fall 2019 by expanding our lineup of items that propose new lifestyle in response to changes in consumer values and purchasing trends. We will also promote creation and strengthening of our store brand as a next-generation commercial facility that offers experiences based on services and information. In addition, we will move forward with a digital transformation, strengthening our efforts to evolve CRM and utilize AI, as well as diversifying settlement functions. Our goal is to provide appropriate services and new consumption experiences to individual customers both in stores and online.

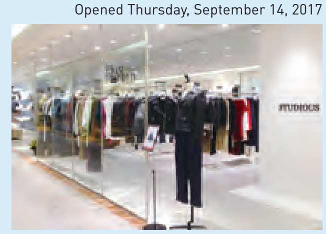
Key Renovations in Fiscal 2017

Urban Complexes

Nagoya PARCO

Amid increasing competition in the markets, we aimed to differentiate ourselves in new ways. Targeting discerning male and female customers with distinct values, we continued to strengthen the store's distinctive position in fashion retailing. We introduced leading Japanese brands that pioneer fashion trends, cosmetic stores that we are debuting in the Nagoya area, and ladies' apparel brands that had caught the public eye in Tokyo. We also fully refurbished the store's restaurant floor, offering new ways as a hub for information and communication for a wide range of people in different customer segments to spend their time.

Opened Thursday, September 14, 2017



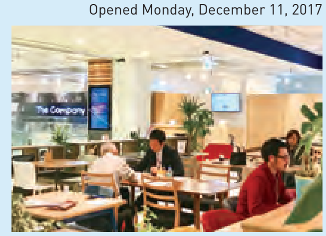
Nagoya PARCO West Building 2nd floor
Women's clothing STUDIOUS WOMENS

Urban Complexes

Fukuoka PARCO

In the new building, we opened an innovative new hostel, the first in a commercial facility, and a coworking space that proposes new work styles to continue proposing to customers new ways of spending time in the city. We also enhanced the modern fashion appeal of the new building by launching the area's first fashion brand. New sports, unisex fashion brand, character merchandise, and hobby materials stores also opened in a pop culture area in the main building to attract a broader base of customers.

Opened Monday, December 11, 2017



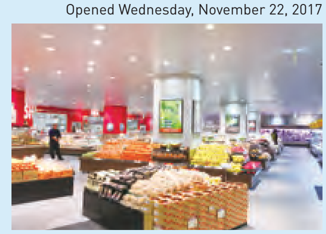
Fukuoka PARCO New Building 5th floor
Coworking space The Company

Community Complexes

Urawa PARCO

To mark the store's 10th anniversary, we proposed a practical and convenient, high-quality food zone to meet the needs from families spanning three generations in the local retail trading area. We introduced an urban-style format of a leading supermarket on the first basement floor and specialty stores dealing in food items and homewares, and other categories. As a result, we stimulated activity throughout the entire building by attracting new customer segments and improving the flow of shoppers throughout the store.

Opened Wednesday, November 22, 2017



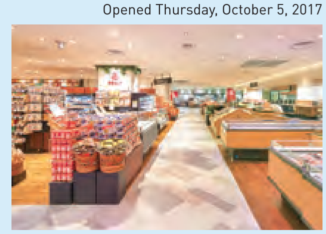
Urawa PARCO 1st basement floor
Supermarket YAOKO

Community Complexes

Tsudanuma PARCO

To mark the store's 40th anniversary, we conducted a large-scale refurbishment of the basement floors and expanded our lineup of daily items to meet market needs against a background of an increasing inflow population. We achieved this through the Tsudanu-Marche, which takes the theme of a market selling highly specialized food items, living essentials, and homewares, among others.

Opened Thursday, October 5, 2017



Tsudanuma PARCO 1st basement floor
TsudanuMarche, a market selling select food items and homewares

Store Data Highlights

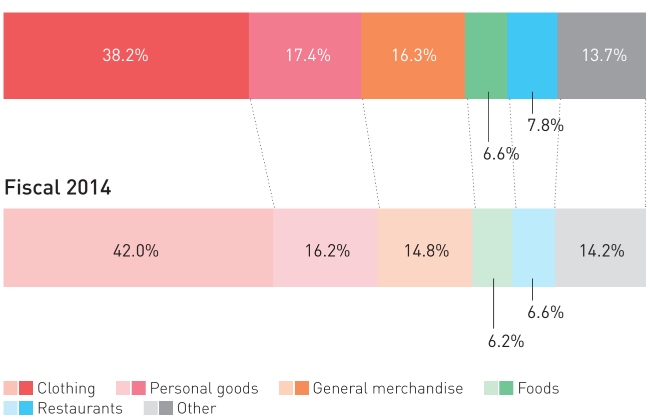
Sales floor area: 389,000 m² (95.1%)

Store visitors: 142,657,000 (100.1%) (Existing stores)

Year-on-year comparison of existing average spend per customer: 98.6% (Existing stores)

Sales Composition by Category

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



Store Renovations Results

Responded to service consumption growth and introduced the food (food products, meals) and cosmetics themes, which are growing markets, along with a new service format.

	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017
Zones renovated	450	425	380	441	289
Area renovated (m²)	44,000	46,000	40,000	55,000	35,000
Renovation effect (Year-on-year sales comparison by zone/ %)	111.0	118.6	116.6	112.7	126.7
New tenant store openings in renovated zones	249	233	219	225	174

Operating Revenue by Store

(Year-on-year Tenant Transaction Volume and Transaction Volume Comparison*1)

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

(Millions of yen)

	Fiscal 2016	Fiscal 2017	Year-on-year change
Urban Complexes Group	**144,245**	**149,549**	**95.6%**
Sapporo PARCO	11,897	13,421	97.8%
Sendai PARCO	17,015	20,030	110.1%
Ikebukuro PARCO	25,767	28,458	102.7%
Shibuya PARCO	7,615	1,138	12.6%
PARCO_ya	-	2,265	-
Shizuoka PARCO	10,310	10,600	98.4%
Nagoya PARCO	36,287	34,671	90.6%
Hiroshima PARCO	15,932	16,719	98.4%
Fukuoka PARCO	19,417	22,243	102.6%
Community Complexes Group	**89,727**	**99,901**	**92.1%**
Utsunomiya PARCO	3,576	3,061	82.2%
Urawa PARCO	17,319	24,618	101.3%
Shin-Tokorozawa PARCO	9,385	10,614	102.4%
Chiba PARCO	4,302	-	-
Tsudanuma PARCO	8,106	10,682	107.8%
Hibarigaoka PARCO	7,066	8,162	101.8%
Kichijoji PARCO	6,904	9,619	103.2%
Chofu PARCO	16,950	18,576	100.1%
Matsumoto PARCO	7,133	7,278	90.8%
Otsu PARCO	3,500	2,297	49.2%
Kumamoto PARCO	5,482	4,989	79.9%
Total of Existing Store Group*2	**215,578**	**237,466**	**98.3%**
Total	**233,973**	**249,451**	**94.2%**

*1 Tenant transaction volume includes fixed rate tenant sales. The values for the previous year used to calculate YoY percentages are calculated on the same basis.

*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 "Fiscal 2016 Total of Existing Store Group."
Data for extended floor area at Shibuya PARCO PART 1 and PART 3, Chiba PARCO, Sendai PARCO2, Otsu PARCO, and PARCO_ya excluded from "Fiscal 2017 Total of Existing Store Group"

Retail Business

Operating Revenue: ¥21,216 million   Operating Profit: ¥75 million

NEUVE A CO., LTD.

www.neuve-a.com

Achievements and Challenges in Fiscal 2017

NEUVE A CO., LTD. reported lower operating revenue and operating profit year on year, mainly reflecting the impact of a decrease in the number of stores due to promoting a scrap-and-build approach as it aims to increase profit margins from fiscal 2018 onward.

Themes for Fiscal 2018

In fiscal 2018, the company will work to reinforce its existing businesses by promoting its scrap-and-build approach and increasing its profit margin by strengthening the lineup of original products. At the same time, the company will expand profits by accelerating its digital strategy, promoting the development of an omni-channel structure, and strengthening marketing.

Satoru Abe
President

Promoting a Dual Strategy to Help Enhance Customer Lifestyles

In the first year of the Medium-term Business Plan, the company saw both revenues and profits decline. The core TiCTAC Business experienced headwinds, and we continued to restructure unprofitable stores with a view to improving profits from fiscal 2018 onwards; however, the ROSEMARY Business and EYEWEAR Business performed strongly.

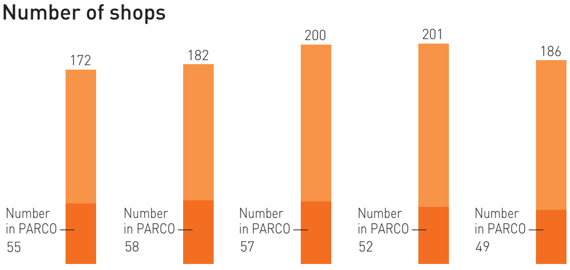
To cope with changes in the management environment, such as digital distribution, we will redefine the source of our growth from "expansion through store openings" to "expansion of customer contact points." At the same time, we will help to enhance customer lifestyles by promoting a dual strategy of "cultivating B2C business by realizing an omni-channel structure" and "expanding business domains by building a new business model."

Number of locations: 186 (49 in PARCO complexes)

Ratio of shops outside of PARCO: 73.7%

TiCTAC Business Watch specialty store	93 (15 in PARCO complex)
EYEWEAR Business Eyeglass specialty store	26 (10 in PARCO complex)
ROSEMARY Business Cosmetics and accessories specialty shop (including Rirerecipe)	22 (13 in PARCO complex)
COLLECTORS Business Men's variety shop	40 (11 in PARCO complex)
Business format development	5 (0 in PARCO complex)

Number of shops



TiCTAC (Watch specialty store)
PARCO_ya store exclusive model
Kelutuan Panda Watch

POKER FACE (Eyeglass specialty store)
Chofu PARCO store
Opened Friday, August 26, 2016

ROSEMARY (Cosmetics and accessories)
KUZUHA MALL store
Renovated and reopened Friday, March 10, 2017

COLLECTORS (Men's variety shop)
COMPLETE WORKS Tokyo
LUMINE EST Shinjuku store
Renovated and reopened Saturday, September 2, 2017

Space Engineering and Management Business

Operating Revenue: ¥21,399 million Operating Profit: ¥652 million

PARCO SPACE SYSTEMS CO., LTD.

www.parco-space.co.jp

Achievements and Challenges in Fiscal 2017

PARCO SPACE SYSTEMS CO., LTD. reported higher operating revenue compared with the previous fiscal year, mainly due to an increase in new orders, but operating profit was lower due to the impact of the sale of property, plant and equipment in the previous fiscal year.

Themes for Fiscal 2018

In fiscal 2018, the company will leverage the expertise and technologies it has built up through contracting work for PARCO and external clients to strengthen its set up for securing a mix of orders for building maintenance services in non-PARCO retail facilities. It will also work to expand its business operations, including its partnership with the J. FRONT RETAILING Group.

Tatsumi Imaeda
President

One-Stop / All-Around / Owner Perspective

We have a three-part strategy that is based on our 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.

Service operations

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

Electrical Work and Lighting Design
Kawasaki LOFT

Space Design and Interior Work
Détour à Bleuet (Hankyu Sanban Gai)

Illumination and Advertising Visuals
First Avenue Tokyo Station (Winter illumination)

Information
BAY QUARTER YOKOHAMA

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

Operating Revenue: ¥6,158 million Operating Profit: ¥53 million

Entertainment Business

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

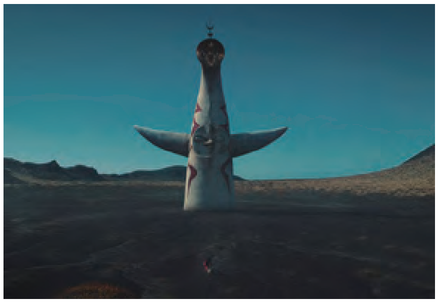
Achievements and Challenges in Fiscal 2017

The entertainment business of PARCO CO., LTD., staged a live performance at TOKYU THEATRE Orb of "SINGIN' IN THE RAIN," a popular show in 2014 that earned an even better reception on its second run. In content development, the company opened a character-themed cafe "Minion Daidassou Cafe" at Sapporo PARCO, expanding its business sites. In addition, the cafe chain achieved strong transaction volume and visitor numbers, opening a branch in Singapore as the "MINIONS CAFE." As a result, operating revenue was up from the previous fiscal year, however, operating profit declined year on year due to the impact of a fallback after a hit movie in the previous fiscal year and the temporary closure of Shibuya PARCO.

Produced by PARCO **Play "Touch and Go" Written and directed by Koki Mitani**
Performed at Shinbashi Enbujo Theatre in March 2018

Themes for Fiscal 2018

In fiscal 2018, the business will work aggressively to strengthen its foundations in non-PARCO settings. In July 2018, CINE QUINTO will open in Shibuya as a new location for the movie business, as part of a move to expand operations. The company will also look to propagate synergies to its stores business by strengthening original content development and increasing its centers for disseminating cultural information.



Produced and Distributed by PARCO
Feature-length documentary "Taiyo no Tou" (Tower of the Sun)
Official release in September 2018
National roadshow at the CINE QUINTO and other locations
©2018 Eiga "Taiyo no Tou" Production Committee

PARCO Digital Marketing CO., LTD.

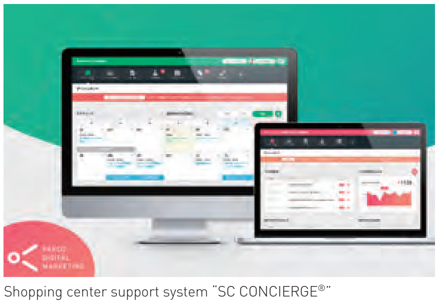
www.parco-digital.co.jp

Achievements and Challenges in Fiscal 2017

PARCO Digital Marketing CO., LTD. saw a year-on-year decrease in operating revenue due to the withdrawal from the recruitment business, but operating profit was higher year on year due to concentrating on the digital marketing business.

Themes for Fiscal 2018

In fiscal 2018, the company will strengthen the development of external clients and promote business expansion through ICT utilization strategies for the core retail facility business. At the same time, it will strengthen the development of independent services.



Shopping center support system "SC CONCIERGE®"

Kenji Kawase
President

Developing SC CONCIERGE® into the Industry Standard

As consumer behavior changes, retail facilities and specialty stores need to make use of digital marketing to achieve closer customer contact and propose new experiences. PARCO Digital Marketing CO., LTD.'s commercial support system SC CONCIERGE® links with the Internet, apps, digital signage and other media to achieve proactive customer contact both online and offline. In addition, we offer groupware for reducing the HR administration burden, employee upskilling support, and other services, assisting over 150 retail facilities and specialty stores nationwide as a partner supporting their use of digital technology in business. In 2021, we plan to develop SC CONCIERGE® as the industry standard, contributing to the future of retail together with over 300 retail facilities and specialty stores throughout Japan.

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 theaters around Japan.

Produced by PARCO

"The Children"

Dates: Wednesday, September 12 to Wednesday, September 26, 2018 Venue: SETAGAYA PUBLIC THEATRE
Shows also scheduled for Saitama, Toyohashi, Osaka, Kochi, Kitakyushu, Toyama and Miyagi

Script: Lucy Kirkwood Translation: Koushi Odajima Direction: Tamiya Kuriyama
Cast: Atsuko Takahata, Shingo Tsurumi, and Mayumi Wakamura

Play that Inspired Hit Performances on Broadway and the West End

Performances of "The Children" made a big splash on Broadway in the U.S. and at the West End in the U.K. Audiences around the world were challenged by the universal and expansive themes. The play looks back on the many disasters of the past, great earthquakes, tsunamis, the stoppage of nuclear power stations, and asks what we, who are living here on this polluted earth, can do for the children who will be born in the future.

The well-known and talented Japanese actors Atsuko Takahata, Shingo Tsurumi, and Mayumi Wakamura have created a high-quality human drama.

Photo by Futoshi Osako

Movies

www.cinequinto.com

PARCO is providing diverse foreign and domestic entertainment centered on the mini-theater CINE QUINTO, which reopened on Friday, July 6, 2018.

"Ocean's Eight"

Friday, August 10, 2018 Nationwide Roadshow at CINE QUINTO and other venues

The hit Ocean's series returns with women in the lead roles! The infamous Danny Ocean's younger sister Debby Ocean attempts an unprecedented heist at the New York Met Gala. The star-studded cast features Sandra Bullock, Cate Blanchett, Anne Hathaway.

©2018 WARNER BROS. ENTERTAINMENT INC., VILLAGE ROADSHOW FILMS NORTH AMERICA INC. AND RATPAC-DUNE ENTERTAINMENT LLCC.

"Asako I & II (Netemo sametemo)"

Saturday, September 1, 2018 Nationwide Roadshow at CINE QUINTO and other venues

Why do people fall in love with other people? What is it that attracts one person to another, and why that particular person? "Young maestro" Ryusuke Hamaguchi directs this film based on the Akutagawa Prize-winning hit novel by Tomoka Shibasaki starring Masahiro Higashide. This sophisticated love story on film caused a stir when it screened at the Cannes International Film Festival competition this year.

© 2018 NETEMO SAMETEMO FILM PARTNERS & COMME DES CINEMAS

Music

CLUB QUATTRO

www.club-quattro.com

We run live music events at our four "CLUB QUATTRO" venues in Shibuya, Nagoya (Nagoya PARCO East Building 8th floor), Umeda, and Hiroshima (Hiroshima PARCO Main Building 10th floor). In 2018, Shibuya CLUB QUATTRO celebrated its 30th opening anniversary with a series of special live performances by artists that have a deep affinity with the club running from June through August.

QUATTRO LABO

www.quattrolabo.com

The music bar QUATTRO LABO produced by CLUB QUATTRO in Kichijoji. Customers can relax and enjoy a drink while listening to vinyl records on high-quality audio equipment.

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.

"Yorokonde Ikiru Mainichi Hifumin" (Living Joyfully Every Day with Hifumin)

Price: ¥1,200 (tax exclusive) Size: 215×150×11 mm 31 days

A daily pad calendar featuring the familiar shogi master Hifumi Kato ("Hifumin"). The calendar features a collection of Hifumin pictures in adorable and dignified poses, with quotes both meaningful and direct. It is comprised of specially commissioned photographs and compositions. The pictures show Hifumin in various situations, playing shogi in traditional Japanese dress, wearing a bespoke red suit, and in casual streetwear. The calendar is certain to bring joy to every day.

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.

Seasonal Ad Campaigns

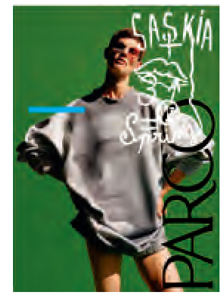
www.parco.jp/style/

PARCO 2017 Autumn/Winter and PARCO 2018 Spring/Summer

In the PARCO 2017 Autumn/Winter and PARCO 2018 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 fourth year of campaigns. The ads were photographed for the first time this year by Alasdair McLellan and featured the model Saskia de Brauw.

Alasdair McLellan's continuing work on images of youth in Britain has been captured on garments with four colors representing the seasons. In addition, Saskia de Brauw, a popular model who has featured in numerous runway events and campaigns for our in-house brands, expresses the classic PARCO mode.

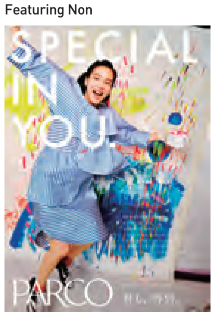
PARCO 2017 Autumn/Winter season poster



PARCO 2018 Spring/Summer season poster

9th message
2017 "SPECIAL IN YOU."
Featuring Ichiro Yamaguchi, Kunihiko Morinaga, Daito Manabe

10th message
2018 "SPECIAL IN YOU."
Featuring Non



Corporate Message for discovering and supporting new talent

www.parco.co.jp/specialinyou/

"SPECIAL IN YOU."

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 our 9th message, we featured three top artists who have been active on the global stage. The 10th message was launched on Friday, June 1, 2018 and features the actress Non.

Left: From left, Ichiro Yamaguchi (Sakanaction), Kunihiko Morinaga (ANREALAGE designer), Daito Manabe (Rhizomatiks Research Leader and artist)
Right: Non (Actress and creative artist)

Support for Young Designer Fashion Show

FASHION PORT NEW EAST

We provided support for the 2018 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 support young designers. FASHION PORT NEW EAST is a project for supporting new designers by giving them the opportunity to show their work on their own terms. We held the fashion show with two young Japanese brands and overseas brands that have attracted strong international interest.

We have provided continuous support for this event, which has run twice in the past three years since October 2015. We believe that having young designers present their designs through this initiative will give them opportunities for further growth. We also hope that new talent for the next generation will serve as a new source of strength for the Japanese fashion industry.

Brands Participating in 2018 Autumn/Winter Collection Show

1 RYOTAMURAKAMI
2 PERMINUTE
3 HEAVEN TANUDIREDJA

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 and Vantan Inc. are jointly involved in measures to discover and encourage young designers in Japan, South Korea, Taiwan and Hong Kong. Through various support programs, including runway shows at fashion events in Tokyo and New York, the project is providing designers with opportunities to grow their business. This time the project also held the AFC High School Contest, a fashion contest just for high school students, for the first time. Through this initiative, we will give all the support we can to nascent fashion flair in even younger people.

With the high school student winners of the AFC High School Contest
Back row from left, President Ishikawa of Vantan Inc., contest judge Megumi Date and Executive Officer Mizoguchi of PARCO foe the Business Development Department

Opened Thursday, October 12, 2017
Ikebukuro PARCO Main Building 8th floor
"& éclé le bistro"

Second neo-bistro directly managed by PARCO — and-ecle.com/ikebukuro

"& éclé le bistro"

In October 2017, we opened "& éclé le bistro," on the 8th floor of Ikebukuro PARCO Main Building. "& éclé le bistro" is a casual dining version of PARCO's directly managed restaurant "& éclé," which is jointly developed and operated with Olivier Rodriquez, the former chef of a one Michelin-star restaurant. The new restaurant proposes "shared-style French food," presenting traditional French dishes in the warm and casual shared style of Japan as conceived by Olivier Rodriquez, who has lived in Japan for 18 years. With the food sector gaining in importance in recent years, the new bistro offers new modes of enjoying French food to urban dwellers.

"itadakimasu by PARCO" opened in December 2016

Japanese restaurant zone — www.parco.com.sg/itadakimasu

"itadakimasu by PARCO"

Since December 2016, we have operated "itadakimasu by PARCO," a Japanese restaurant zone featuring seven restaurants, 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," the restaurants provide Japan-equivalent flavors and quality at affordable prices. With the increase in offices and residents that has accompanied development in the surrounding areas, the restaurants are performing steadily.

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

Communicating new PARCO culture — www.parco.jp/byparco/

"BY PARCO"

"BY PARCO," located in Tokyo's Aoyama district, is made up of three shops, the PARCO-produced "MEETSCAL Stores," the directly managed "ANREALAGE" fashion-brand boutique and the "BY PARCO shop & gallery," event space, and through them communicates new forms of PARCO culture. "MEETSCAL Stores" utilizes connections with designers, manufacturers, and production areas to develop products and provides a space for consumers and makers to encounter one another in a real store by operating POPUP SHOPs and workshops.

BY PARCO

"MEETSCAL Store" produced by PARCO

Street fashion marketing — www.web-across.com

"ACROSS"

"ACROSS" is a media distributed by the think-tank department that studies Tokyo youth fashion and culture. Based on fixed-point observation, and initially started in August 1980, ACROSS now takes requests from inside and outside the company to conduct research on various fields in Japan and overseas.

Since June 2017, ACROSS has been participating in the Google Arts & Culture: We Wear Culture project of Google Inc.'s non-profit organization Google Cultural Institute. We plan to present around 40 years of records on urban environments and styles.

ACROSS
Street Fashion Marketing

Google Arts & Culture: We Wear Culture
https://artsandculture.google.com/

Fiscal 2017 Accolades and Awards

PARCO Group

Named a Noteworthy IT Strategy Company for Two Consecutive Years

PARCO has been named a Noteworthy IT Strategy Company* for two consecutive years, as a company conducting noteworthy initiatives regarding proactive use of IT in management. This time, the company was recognized for actively trialing digital technologies such as robots, AR/VR, and blockchain, and for constant efforts to upgrade in-house systems from the customer's perspective.

* The Noteworthy IT Strategy Company: In the process of the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange jointly selecting the Competitive IT Strategy Company Stock Selection program, companies that were not included in the program but demonstrated outstanding efforts for IT utilization are awarded the Noteworthy IT Strategy Company designation by METI.

Received the Information Technology Utilization Prize

The company won the newly established Information Technology Utilization Prize at the 20th Grand Prize for Developers Chosen by Leading National Tenants sponsored by Senken Shimbun.

At the award ceremony for the Information Technology Utilization Prize
On the right: Executive Officer Hayashi for the Group ICT Strategy Office

Corporate Website Wins Various Awards

The company was elevated a rank from 2016 to receive the 2017 Internet IR Excellence Awards by Daiwa Investor Relations Co., Ltd. In the Gomez IR Website Ranking for 2017, the company was ranked third in the retail business category and received a Silver Prize overall. The company also received an AA rating in the overall category of the 2017 All Japanese Listed Companies' Website Ranking from Nikko Investor Relations Co., Ltd.

Award Ceremony for the 2017 Internet IR Excellence Awards
From left: Professor Kitagawa, Aoyama Business School; Managing Executive Officer Abe for the Public Relations and Investor Relations Office of PARCO; Representative Director and President Hasegawa, Daiwa Investor Relations Co., Ltd.

Shopping Complex Business

Received the Yomiuri Advertising Awards Second Prize

For the first time, PARCO won the 33rd Yomiuri Advertising Awards Second Prize, for its "Last Dance_" advertising campaign. The campaign was launched to connect the temporary closure of Shibuya PARCO to the future and received a high evaluation from the judging panel.

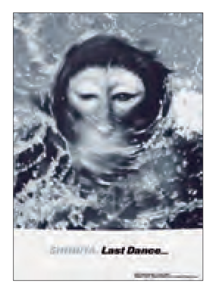
The "Last Dance_" advertising campaign

Award ceremony for the Yomiuri Advertising Awards Second Prize
On the right: Managing Executive Officer Sensui for the New Business Planning Division

Two Creative Teams Receive ADC Awards for PARCO Advertisements

The creative unit M/M (Paris) and photographer Juergen Teller received prizes at the 2017 ADC Awards for their work on PARCO's 2016 Autumn-Winter and 2017 Spring-Summer seasonal ad campaigns. It was the second award for M/M (Paris) for work on a PARCO advertisement, following an earlier award in 2015. Art director Tsuguya Inoue also received an ADC Members' Award for the PARCO "SHIBUYA, Last Dance_" poster promoting an exhibition held at PARCO MUSEUM held in August 2016. PARCO's season advertisements and the PARCO "SHIBUYA, Last Dance_" poster were selected from among around 8,000 entries published, used, or posted in the year from May 2016 to April 2017.

The 2016 Autumn-Winter and 2017 Spring-Summer seasonal campaign posters that received the 2017 ADC Award

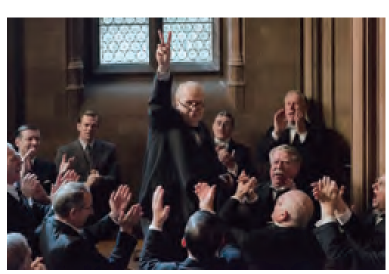


The PARCO "SHIBUYA, Last Dance_" poster that received the 2017 ADC Members' Award

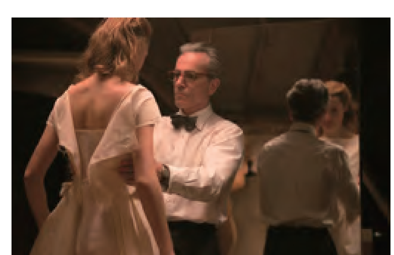
Entertainment Department

PARCO's Jointly Distributed Film Wins an Academy Award

The film "Darkest Hour," jointly distributed by PARCO, was nominated for six awards at the 90th Academy Awards, winning two, for Best Actor and Best Makeup and Hairstyling. "Phantom Thread," also jointly distributed by PARCO and nominated for six Academy awards, winning an award for Best Costume Design.



"Darkest Hour"
(Universal Pictures)
©2017 Focus Features LLC. All Rights Reserved.



"Phantom Thread"
(Universal Pictures)
©2017 Phantom Thread, LLC All Rights Reserved.

PARCO Group CSR

Masaaki Abe
Managing Executive Officer
CSR Committee Chair

Aiming for Sustainable Management

To increase the quality of its CSR activities, the PARCO Group has formulated the PARCO Group Fundamental CSR Policy, clearly defining its position on CSR and establishing a system for its CSR activities. We consider the definition of CSR to be the embodiment of our Corporate Mission. We will gain our stakeholders' trust and ensure their satisfaction through our three social roles: "Incubation," "Urban Revitalization," and "Trends Communication;" and promote initiatives to enhance our corporate value. In fiscal 2017, we introduced the ESG perspective, aiming to achieve sustainable growth through our four main themes: "Next-generation human resources," which involves supporting the workforce and talents of the next-generation; "Culture," in the form of providing new cultural value and creating culture-based markets; "Local communities," which includes working to enhance the attractiveness of local communities and neighborhoods; and "Environment," where we aim to promote the creation of commercial spaces that place a smaller burden on the environment. In addition to these, we are also actively addressing "Work style reform" and "Compliance."

Furthermore, at the United Nations Sustainable Development Summit of September 2015, the 2030 Agenda for Sustainable Development was adopted and the 17 Sustainable Development Goals and 169 targets were proclaimed. Through its three social roles, the PARCO Group aims to contribute to the resolution of various social issues. In fiscal 2018, we aim to achieve sustainable management with the SDGs in mind by actively addressing the issues of "Work style reform" and "Compliance," which have been added to our four main themes.

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/

PARCO Group Fundamental CSR Policy

Definition of CSR ▶

Embodiment of Corporate Mission

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

Three Social Contributions

Incubation | Urban revitalization | Trends communication

CSR Mission ▶

PARCO WAY

The PARCO Group will contribute through futuristic, innovative business activities to the realization of a society where urban consumers lead fulfilling lives.

Main Themes ▶

Next-generation human resources
The PARCO Group will support the talents of the next-generation's workforce, thereby contributing to an energetic and diverse society.

Culture
The PARCO Group will constantly provide new value, transmit information, and create culture-based markets, starting with fashion and entertainment.

Local communities
PARCO means "park" in Italian. The PARCO Group will provide a "park" or a space where people come together to share time and space, where they can relax and have fun. We will also work to enhance the attractiveness of local communities and neighborhoods.

Environment
The PARCO Group will promote the creation of stores that place a smaller burden on the environment.

Stakeholders ▶

Seven stakeholders

Customers	Tenants	Employees	Shareholders and investors	Members of the local community and society at large	Landowners and leaseholders	Contract business partners

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, with the additions of "Work style reform" and "Compliance." We are involved in a variety of related activities and promote management based on the values of diversity and inclusion.

* For further information about our initiatives for "Next-generation human resources," "Culture," and "Local communities," please refer also to "Feature: Realizing Growth by Widening Unique Value Provided to Urban Areas" beginning on page 25 and "Success of Value Creation" beginning on page 34.

5 GENDER EQUALITY
8 DECENT WORK AND ECONOMIC GROWTH

Supporting Diverse Work Styles

Home Work Program

The home work program was introduced as an official program in March 2017 and is currently being put to use for employees who have restricted working time due to reasons such as childcare or nursing care.

A meeting to explain the home work program to encourage its use

Home work program
Fiscal 2017 **29 employees**

Childrearing and Nursing Care Support Programs

PARCO has made changes to its Employee Work/Life Balance Support System in accordance with January 2017 amendments to Japan's Child Care and Family Care Leave Law, and has expanded some systems beyond what is stipulated by law.

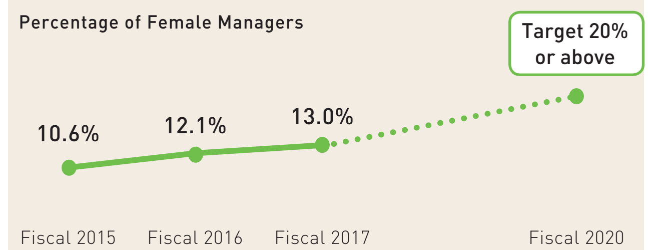
The "Childrearing-Career Support Project," a roundtable meeting regarding balancing child-rearing and careers, was attended by four female employees from the PARCO Group who are using the childrearing support programs.

Childrearing Support Programs
Fiscal 2017 **53 employees**

Nursing care Support Programs
Fiscal 2017 **4 employees**

Promoting Dynamic Participation of Women

We recognize that encouraging shorter working hours by promoting the use of paid leave throughout the company will go far in helping to create an environment where women can work and contribute more easily. Moreover, to encourage participation and improve the percentage of women in managerial positions, we formulated an action plan in response to the Advancement of Women Act that includes cultivating female managerial candidates, providing opportunities for boosting the career consciousness of young female employees, and creating a workplace more conducive for employees with time constraints. With respect to the annual average number of days of paid leave taken, we are aiming for 10 days by fiscal 2020, compared to five days in fiscal 2014. In parallel, we are striving to have women make up 20% or more of managers in fiscal 2020, versus 10.6% in fiscal 2015.



16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Ensuring Compliance

Anti-Harassment Training

All employees receive anti-harassment training, to raise awareness of harassment and prevent it from occurring.

Fiscal 2017
Held 3 times
521 participants

Compliance Training

Compliance training focuses on themes identified by the Risk Management Committee and other internal themes that need to be addressed. It was held four times for 191 people during fiscal 2017, covering themes such as the revised Act on the Protection of Personal Information, social media, and online shaming. We will continue to promote awareness within the company by creating a library of training themes and other means.

Fiscal 2017
Held 4 times
191 participants

11 SUSTAINABLE CITIES AND COMMUNITIES

Systemization of Risk Management

PARCO Group Business Continuity Plan (BCP)

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 BCP training is held regularly each year.

In fiscal 2017, training was held five times, with 68 participants. In addition to disaster response training for seven stores in the greater Tokyo area and Hiroshima PARCO, we also conducted training for Nagoya PARCO, which is the acting countermeasure head-quarters. Disaster training was also held for Head Office, including training for the Personnel Department and the Administration and Legal Department, which are responsible for mobilization in the event of a major disaster, and for the Divisions that have newly established BCPs.

BCP training
Fiscal 2017
Held 5 times
68 participants

Links with the Community

Creating New Value and Appeal with Partners Who Have Deep Ties to Local Communities and Manufacturers

PARCO_ya

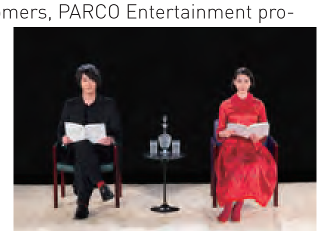
Under the concept of "a slightly up-market, sophisticated spot that's fun to visit with friends." PARCO_ya incorporates 52 stores opening in Tokyo's Ueno Okachimachi area for the first time, as well as 11 companies with strong ties to the local community. The facility aims to grow in step with the local market, offering exclusive panda merchandise, and co-sponsoring the Okachimachi Panda Hiroba Shitamachi Skating Rink.

Okachimachi Panda Hiroba Shitamachi Skating Rink

Putting an Original Touch on Community Favorites to Provide New Excitement

Chofu PARCO

PARCO worked to increase the appeal of Chofu town amid the ongoing redevelopment of the Chofu station-front area. In conjunction with the opening of a new attraction for customers, PARCO Entertainment produced a performance of its top program, the stage reading of "Love Letters," at Aeon Cinema Theatus Chofu on Friday, December 8, 2017. The attempt at using a movie theater generated interest, and a wide range of customers enjoyed the show.



Performed by Yoshimasa Hosoya and Non

Photo by yukihiro kato

Forging Connections between Talented Local People and Famous Local Products to Contribute to Further Expansion and Information Dissemination

Hibarigaoka PARCO

We held the first Hibari Culture Festival, featuring workshops, lectures, and sale events run in cooperation with authors, creatives, craftspeople, and schools in Nishitokyo City. The event attracted many visitors and fostered communication between local residents.

The "Town History lecture held on the 5th floor of Hibarigaoka PARCO

Hiroshima PARCO

Hiroshima Fashion Week was held for the fourth year in 2017. We collaborated with the local commercial district to prepare a red carpet approximately 500 m long for a runway show. In addition to models, the show featured shop staff and helped to enliven the central city area as a major fashion event.

The runway show held in the commercial district

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.

Promoting recycling and reuse

Through the cooperation of tenant businesses, PARCO is proactively working to reduce business garbage and increase renewable use. We are implementing practices including the reuse of plastic hangers, 100% recycling of cardboard and waste oil, and the recycling of compostable garbage into fertilizer.

We also use garbage scales to visualize the amount of garbage generated by each tenant, creating a structure that promotes the recycling of every recyclable item.

Garbage scales at Chofu PARCO

Recycling Rate
Fiscal 2017
68.95%

Promotion of switch-over to LED lighting

Since 2012, we have been working to reduce electricity consumption by systematically phasing in a change from inefficient lighting to LED lighting for shared spaces in PARCO stores. Currently we have installed LED lighting in approximately 64% of PARCO's total area, excluding areas with high-efficiency lighting and fluorescent lighting. We will address areas that have not yet been converted to LED systematically in consideration of renovation schedules and other factors.

LED lighting is now used in 100% of shared areas in PARCO_ya

Electricity Consumption at Existing Stores Year-on-year
98.1%

Fundamental Policy

PARCO constantly works to strengthen its corporate governance, recognizing that to enhance its corporate value it is essential for it to protect the rights and earnings of shareholders, build smooth relationships with stakeholders other than shareholders, preserve transparency in management and establish an effective management oversight structure. PARCO has adopted the "Company with 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, as a member of the J. FRONT RETAILING Group, PARCO will strive to increase its corporate value by promoting business management towards realizing the group vision. Meanwhile, the PARCO Group has its own independent PARCO Group Vision as well as its own corporate governance systems to ensure autonomy and transparency of management.

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 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.

Management Supervision

General Meeting of Shareholders

Board of Directors

Convened 14 Times in Fiscal 2017

The Board of Directors is responsible for deciding fundamental policies regarding management, and for the supervision of directors and executive officers. In fiscal 2017, the Board of Directors comprises eight directors (seven men and one woman), of which four are external directors, and it convenes once a month, with additional irregular meetings held flexibly as necessary.

Fiscal 2017 Attendance Record of External Directors

Hiroshi Takahashi	14 out of 14 meetings
Tomonori Ito	11 out of 14 meetings
Noriko Nakamura	13 out of 14 meetings
Tadayuki Seki	14 out of 14 meetings

Committees

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

Nominating Committee

Convened Eight Times in Fiscal 2017

(Of the five members (four men and one woman), four are external directors (independent directors))

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

Audit Committee

Convened 13 Times in Fiscal 2017

(Of the four members (three men and one woman), all are external directors (independent directors))

The Audit Committee monitors the execution of business by directors and executive officers, and determines the content of proposals to be submitted at the General Meeting of Shareholders regarding the selection, dismissal or reappointment of the financial auditor.

Compensation Committee

Convened Seven Times in Fiscal 2017

(Of the five members (four men and one woman), four are external directors (independent directors))

The Compensation Committee determines the compensation of individual directors and executive officers.

Collaboration

Group Auditor Office

The Group Auditor Office (11 members) was established under a full-time executive officer as the company's internal auditing department. It audits the status of legal compliance, operational streamlining and risk management of all business aspects of PARCO and the PARCO Group subsidiaries, based on the auditing plan. It also exchanges information with the Audit Committee and auditors of group subsidiaries as necessary, and conducts effective audits.

Coordinates CSR Activities

Management Supervision

Execution of Management

President and Representative Executive Officer

Management Committee

The Management Committee is a deliberative organ designed to facilitate decision-making by the president and representative executive officer in the execution of specific business operations. The Management Committee comprises the managing executive officers, the various executive officers for the Finance Group, the Accounting Group, the Business Operation Group, the Personnel Group, the Administration and Legal Group, and the Group Auditor Office, and the executive officers for departments. The Management Committee has one female member.

Executive Officers

Executive officers execute specific operations based on the fundamental policies decided by the Board of Directors. There are 16 executive officers (14 men and two women).

Internal Audit

Divisions

→ Indicates an appointment, report, instruction, audit or decision.

Messages from External Directors

Hiroshi Takahashi

External Director
(Independent director)
Audit Committee Chair

Emphasis on Teamwork

The roles of the external directors are 1) advisors on management policy and improving management, 2) a supervisory function over management, 3) a supervisory function over conflicts of interest, and 4) to ensure transparency.

In light of these roles, to achieve an increase in corporate value for the medium to long term, the external directors must be ready to act on the following two points in particular.

The first is to point out and offer advice directly on issues that people inside the company find difficult to bring up with management if they deem it necessary. Next, to enable the growth of the company, the external directors with their different backgrounds must emphasize teamwork in order to build and maintain the effective "proactive corporate governance" that is the objective of the Corporate Governance Code.

Tadayuki Seki

External Director
(Independent director)

Provide Balanced Opinions

Since my election as an external director, I have been involved in management with the fundamental understanding that the wellspring of corporate value creation for PARCO is the independence and corporate culture of its management, and the autonomy and creativity of the executive officers and employees that support them. I tend to look at the financial information side of things from my experience as a CFO; however, in my participation in the Board of Directors meetings, I have also given plenty of consideration to non-financial information aspects such as creativity, which is the wellspring of PARCO's corporate value. Looking ahead, I will continue to evaluate the effectiveness of the company's corporate governance system having adopted the "Company with Three Committees system," which includes a Nominating Committee. As we work through the PDCA cycle, I will actively provide opinions with a balance between financial and non-financial aspects to contribute to the continuous increase of PARCO's corporate value.

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 Director and Chair of Board of Directors 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 Business School. 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.
Noriko Nakamura	Ms. Nakamura has been Chief Executive Officer of Poppins Holdings Co., Ltd. and Chairman of 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.
Taro Sawada	Through his service as Director and Managing Executive Officer of J. FRONT RETAILING Co., Ltd., Mr. Sawada 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.

Analyzing and Assessing Overall Effectiveness of the Board of Directors

To improve the effectiveness of the Board of Directors, from December 2017 to January 2018, PARCO conducted an effectiveness evaluation of its Board of Directors and each Board member (for the third time). 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, and opinions are collected on how to enhance the Board's effectiveness going forward.

(iii) Results of effectiveness evaluation

In light of the past two effectiveness evaluations held in fiscal 2015 and fiscal 2016, the Board carried out response measures in fiscal 2017, the first year under the Medium-term Business Plan (FY2017-2021), such as ensuring serious discussion by setting strategic proposals centered on its core businesses and bringing forward the starting times of the Board of Directors meetings, as well as providing information to the directors and strengthening communication with the executive side. As a result, the evaluation for fiscal 2017 has improved overall. Each director has given a reasonable level of evaluation points, with signs of improvement of the Board of Directors efficiency, having adopted the "Company with Three Committees" system, which includes a Nominating Committee. Areas that received notably positive evaluations were "Effectiveness as a Company with Three Committees, which includes a Nominating Committee," "Contribution to management of Board of Directors discussion and resolutions," and "Time allocation for Board of Directors meetings, number of meetings per year, and committee support system."

(iv) Subsequent points for improvement of effectiveness

1. Enhance serious discussion on highly important strategy themes such as management strategy and financial measures
2. Improve meeting flow and execution plan proposal capabilities to achieve the above
3. Further promote internal understanding of directors and secure opportunities for two-way communication with the executive side

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.

Compensation for Directors and Other Officers in Fiscal 2017

Category	Individuals Paid (Name)	Amount Paid (Millions of yen)
Directors (excluding external directors)	4	25
External directors	4	31
Executive officers	16	433
Total	24	489

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, stock-based compensation from the Board Benefit Trust.

(3) The ratios of executive officer basic annual salary, performance pay (standard), and stock-based compensation are to be 40%-50% depending on position: 30% (equivalent value) : 20%-30% (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; from fiscal 2006, divided into eight categories with the range of variation expanded for executive directors).

(6) The executive officer stock-based compensation 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.

Responding to the Corporate Governance Code

PARCO considers it important to have a sincere understanding and response to the principles of the Corporate Governance Code in order to realize the PARCO Group's sustainable growth and increase of corporate value over the medium- to long-term. To this end, the company is reinforcing and revising its systems in order to implement all of the principles and clearly documenting its approach.

Refer to the PARCO website for detailed information.

Fundamental Policy for Corporate Governance
Corporate Governance Report

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

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 have also created integrated 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 2017

Measures for individual investors	We are continuously increasing the quantity of IR-related information on the website. We also send out regular IR newsletters, twice or more every month and provide information over social networking services.
Measures for analysts and institutional investors	Small meetings are held twice a year for analysts and institutional investors (in April and October). Both are run by the President and Representative Executive Officer, who provides a financial summary of the PARCO Group and explains the management status and approach, among other topics, as well as presenting a video. In addition, individual meetings were held by managing executive officers with institutional investors and analysts in Japan.
Measures for overseas investors	Inside Japan, individual meetings with overseas investors are held. To strengthen our approach for overseas investors, we also provide English translations of earnings presentations and videos on the same day as results announcements to enhance the information provided and its timeliness.

Promotion of ESG Initiatives Board of Directors and Officers (As of May 31, 2018)

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)
2017 Serves as External Vice President for eSOL Co., LTD. (current post)
Serves as External Director for Realize Inc. (currently Netamoto Inc.) (current post)

Yasuyuki Kobayashi

Director

1973 Enters The Daimaru, Inc. (currently Daimaru Matsuzakaya Department Stores Co. Ltd.)
2003 Serves as 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 the company above
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 MUFG Bank, 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 (currently Hitotsubashi University Business School)
2012 Serves as External Director for PARCO CO., LTD. (current post)
Serves as Professor at Hitotsubashi University's Graduate School of International Corporate Strategy (currently Hitotsubashi University Business School) (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)

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 Chief Executive Officer for Poppins Corporation
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 for Poppins Holdings Co., Ltd. (current post)
2018 Serves as Chairman for Poppins Corporation (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 the company above
2007 Serves as Managing Executive Officer, General Manager of Finance Division for the company above
2009 Serves as Representative Director, Managing Director, Chief Officer of Finance, Accounting, Risk Management and CFO for the company above
2010 Serves as Representative Director and Senior Managing Executive Officer for the company above
2011 Serves as Representative Director, Senior Managing Executive Officer and CFO for the company above
2013 Serves as Representative Director, Executive Vice President and CFO for the company above
2014 Serves as Representative Director, Executive Vice President, Executive Advisory Officer and CFO & CAO for the company above
2016 Serves as External Director for PARCO CO., LTD. (current post)
Serves as Outside Director for NIPPON VALQUA INDUSTRIES, LTD. (current post)
2017 Serves as Outside Director for JSR Corporation (current post)
Serves as Outside Statutory Auditor for Asahi Mutual Life Insurance Company (current post)

Taro Sawada

Director

1983 Enters The Daimaru, Inc. (currently Daimaru Matsuzakaya Department Stores Co. Ltd.)
2004 Serves as General Manager of Sales Planning CS Promoting Office, Sales Promotion Division of Daimaru Kobe for the company above
2007 Serves as Deputy General Manager of Sales Planning Promotion of Daimaru Kobe for the company above
Serves as Deputy General Manager of Sales Management Store of Daimaru Kobe for the company above
2010 Serves as Senior General Manager of Management Planning Division, Daimaru Matsuzakaya Department Stores Co. Ltd.
2011 Serves as General Manager of Daimaru Kobe for the company above
Serves as Corporate Officer, Executive Store Manager of Daimaru Kobe for the company above
2012 Serves as Corporate Officer, Executive General Manager of Daimaru Osaka Shinsaibashi for the company above
2015 Serves as Executive Officer, Executive Store Manager of Daimaru Osaka Shinsaibashi, Executive General Manager of Shinsaibashi New Store Planning Office for the company above
2016 Serves as Corporate Officer, Senior General Manager of Management Planning Division for the company above
2017 Serves as Corporate Officer, Senior General Manager of Management Planning Division and Senior General Manager of Management Planning Division and Senior General Manager of Management Planning Division, Senior General Manager of Future Standards Laboratory for the company above
Serves as Director and Corporate Executive Officer for the company above
2018 Serves as Director for the company above (current post)
Serves as Director and Managing Executive Officer, Senior Executive General Manager of Management Strategy Unit and in charge of Risk Management, J. FRONT RETAILING Co., Ltd. (current post)
Serves as Director for PARCO CO., 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 Shinsaibashi 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

Financial Section

For long-term numerical data and graph data, please refer to the PARCO website and FACTBOOK 2018.

Investor Relations
http://www.parco.co.jp/en/ir/

FACTBOOK 2018
www.parco.co.jp/en/ir/library/financial/factbook.php

Management's Discussion and Analysis

Effective from fiscal 2017 (March 1, 2017 to February 28, 2018), the PARCO Group adopted International Financial Reporting Standards (IFRS), replacing existing Japanese accounting standards. To facilitate comparison, figures for the previous fiscal year based on Japanese accounting standards have been restated using IFRS.

Current Situation

In fiscal 2017, ended February 28, 2018, the Japanese economy continued to recover at a moderate pace, supported by firm corporate earnings, a recovery in consumer sentiment amid improving employment and income conditions, and strong inbound demand. However, the economic outlook remained uncertain due to instability overseas.

Evaluating Fiscal 2017 Results

Overview

Under the market environment described above, the PARCO Group pushed ahead with business development in line with the first-year goals of its Medium-term Business Plan (FY2017-2021).

In fiscal 2017, we promoted scrap-and-build initiatives based on business selection and concentration. For example, in August we closed Otsu PARCO, while in November we partially reopened Kyoto ZERO GATE. In addition, in line with the J. Front Retailing Group's Urban Dominant Strategy, we opened a store under our new brand, PARCO_ya, in Ueno as a joint project with Daimaru Matsuzakaya Department Stores Co., Ltd. We decided to open a store in the North Building of Daimaru Shinsaibashi in spring of 2021 and promoted business aimed at expanding our provision of value in urban areas. In the PARCO Stores business, we took a number of steps to address increasingly diverse consumer values and growth in the consumption of "value" rather than "things." Specifically, we adjusted tenant composition, developed high-profile promotional events, created new consumer experiences by using ICT in unique ways and upgraded tenant services.

As a result, operating revenue declined 2.3%, or ¥2,159 million year on year, to ¥91,621 million, mainly reflecting the temporary closure of Shibuya PARCO (August 2016) and the closure of Chiba PARCO (November 2016) and Otsu PARCO (August 2017). Operating gross profit was ¥29,263 million, down 6.5%, or ¥2,039 million. The operating gross profit margin was 31.9%, down 1.4 percentage points from the previous fiscal year.

Selling, general and administrative expense increased 2.6%, or ¥474 million, to ¥18,979 million, while the ratio of SG&A expense to operating revenue increased 1.0 percentage point year on year to 20.7%.

Other income declined 42.6%, or ¥2,113 million, to ¥2,853 million, mainly reflecting the absence of gains on the sale of property, plant and equipment booked in the previous fiscal year. Other expense declined 60.0%, or ¥2,136 million, to ¥1,425 million, mainly due to the absence of loss on store closing incurred in the previous fiscal year.

As a result, operating profit was ¥11,713 million, down 17.5%, or ¥2,490 million year on year. The operating profit ratio was 12.8%, down 2.4 percentage points from the previous fiscal year.

Profit before tax was ¥11,455 million, down 16.2%, or ¥2,213 million, and profit attributable to owners of parent was ¥7,809 million, down 11.2%, or ¥985 million.

Earnings per share was ¥76.97 and return on equity (ROE) was 6.3%, a decline of 1.2 percentage points from the previous fiscal year.

In line with our policy of maintaining stable shareholder returns, the company paid a year-end dividend of ¥12 per share for fiscal 2017, giving a total cash dividend applicable to the year of ¥23 per share.

Segment Performances

■ Shopping Complex Business

The Shopping Complex Business reported operating revenue of ¥51,351 million, down 4.7% year on year, and operating profit of ¥10,964 million, down 16.8%.

PARCO tenant transaction volume*1 totaled ¥249,451 million, down 5.8% year on year. That decline largely reflected the temporary closure of Shibuya PARCO and the closure of Chiba PARCO and Otsu PARCO, which was partially offset by the opening of Sendai PARCO2 in the previous fiscal year and the opening of PARCO_ya in the fiscal year under review.

In the PARCO Stores Business, we overhauled the organization and reinforced measures at each store to support our strategy of developing two different types of shopping facilities – Urban Complexes and Community Complexes.

In store renovations, we actively introduced new retail formats, based on market growth themes in food (food products and restaurants) and in cosmetics. Furthermore, in response to the growth in the service consumption resulting from initiatives in lifestyle-related homewares and new service formats, we renovated approximately 35,000 m^2 of floor space across all our stores. PARCO tenant transaction volume in this refurbished area grew by 26.7% year on year. At Ikebukuro PARCO, we opened a second directly management restaurant called & éclé le bistro, which is part of our efforts to make existing stores stand out in the market and strengthen our lifestyle offerings through food.

On the sales planning front, we continued to step up efforts to attract users to POCKET PARCO, our official smartphone app that anchors our CRM initiatives, while also offering tie-in promotions for PARCO Card members. As a result, transaction volume for Class S PARCO Card members – our top customers with strong loyalty to the brand – increased 7.5% year on year at existing stores.

To address the growing number of overseas visitors to Japan, we upgraded the shopping environment, such as offering more payment methods, and enhanced communication using media aimed at overseas visitors. As a result, transaction volume for overseas-issued credit cards*2 increased 25.1% year on year.

In addition, we ran a number of promotional events that helped boost customer traffic and transaction volume at our stores. Events included "Creator's File Festival," the first ever exhibition organized by Ryuji Akiyama (ROBERT), which was mostly held at main Urban Complexes along with smaller spin-off events at Community Complexes. Another high-profile event was "ANREALAGE EXHIBITION A LIGHT UN LIGHT," which was organized by fashion brand ANREALAGE.

With regard to use of ICT, we conducted a trial introduction of Siriusbot, a robot designed for use in commercial facilities and stores, to help transform them into next-generation commercial facilities. The robot was trialed for providing guidance for customers in the stores and supporting tenant's inventory operations. We also rolled out a new service for tenants that analyzes customer traffic and customer characteristics (age, gender). The service generates data to help tenants verify the effectiveness of in-store initiatives, such as adjustments to merchandise lineups and optimization of staffing levels based on customer traffic. The service is part of our wider efforts to enhance support services that help tenants improve operational efficiency.

In domestic store development, we started the first round of openings for some tenants on the upper floors of Kyoto ZERO GATE in November 2017, which is part of our strategy to develop areas for future Urban Complexes. In March 2018, we opened Shinjuku ZERO GATE, the ninth location for the ZERO GATE format. Future store development plans include the construction of Sannomiya ZERO GATE (tentative name), due to open in fall 2018. We have also decided to open a new store near Kinshicho Station in Tokyo's Sumida Ward, due to open in spring 2019, and a new store in the North Building of Daimaru Shinsaibashi, scheduled for spring 2021.

In new businesses, our BOOSTER crowd-funding business teamed up with CAMPFIRE, Inc., a provider of crowd-funding services, in December 2017. The two companies have started joint fund procurement activities to reinforce their business incubation capabilities, helping to grow the BOOSTER business.

*1 PARCO tenant transaction volume is sales at tenants in PARCO stores.
*2 Transaction volume for overseas-issued credit cards does not include transactions at Shibuya PARCO, Chiba PARCO, Otsu PARCO or PARCO_ya.

■ Retail Business

The Retail Business reported operating revenue of ¥21,216 million, down 1.5% year on year, and operating profit of ¥75 million, down 63.3%.

NEUVE A CO., LTD. reported lower operating revenue and operating profit year on year, mainly reflecting the impact of a decrease in the number of stores due to promoting a scrap-and-build approach as it aims to increase profit margins from fiscal 2018 onward. As of the end of fiscal 2017, the company operated a total of 186 stores.

■ Space Engineering and Management Business

The Space Engineering and Management Business reported operating revenue of ¥21,399 million, up 4.2% year on year, and operating profit of ¥652 million, down 15.6%.

PARCO SPACE SYSTEMS CO., LTD. reported higher operating revenue compared with the previous fiscal year, mainly due to an increase in new orders, but operating profit was lower due to the impact of the sale of property, plant and equipment in the previous fiscal year.

Other Business

The Other Business reported operating revenue of ¥6,158 million, up 0.3% year on year, and operating profit of ¥53 million, up 17.2%.

The entertainment business of PARCO CO., LTD. staged a live performance at TOKYU THEATRE Orb of "SINGIN' IN THE RAIN," a popular show in 2014 that earned an even better reception on its second run. In content development, the company opened a character-themed cafe "Minion Daidassou Cafe" at Sapporo PARCO, expanding its business sites. In addition, the cafe chain achieved strong transaction volume and visitor numbers, opening a branch in Singapore as the "MINIONS CAFE." As a result, operating revenue was up from the previous fiscal year, however, operating profit declined year on year due to the impact of a fallback after a hit movie in the previous fiscal year and the temporary closure of Shibuya PARCO.

PARCO Digital Marketing CO., LTD. saw a year-on-year decrease in operating revenue due to the withdrawal from the recruitment business, but operating profit was higher year on year due to concentrating on the digital marketing business.

Financial Position

Assets

Total assets at the end of fiscal 2017 were ¥261,835 million, up ¥13,029 million.

Total current assets were ¥39,245 million, an increase of ¥5,697 million. That primarily reflected an increase of ¥1,941 million for cash and cash equivalents and an increase of ¥3,365 million for inventories, which was related to the Shibuya PARCO redevelopment project.

Total non-current assets were ¥222,590 million, an increase of ¥7,331 million. This was largely due to an increase of ¥6,948 million for property, plant and equipment related to the Shibuya PARCO redevelopment project and the opening of PARCO_ya.

Total asset turnover was 0.36 times and return on assets (ROA) was 4.5%.

Liabilities

Total liabilities were ¥135,524 million, an increase of ¥7,318 million from the end of the previous fiscal year.

Current liabilities were ¥52,514 million, a decline of ¥2,122 million. Although other current liabilities increased ¥8,803 million, which was related to the Shibuya PARCO redevelopment project, total current liabilities declined, mainly due to a decline of ¥11,699 million for bonds and borrowings due to redemptions and repayments.

Non-current liabilities were ¥83,010 million, an increase of ¥9,441 million. That largely reflected an increase of ¥6,357 million for bonds and borrowings due to new fund procurement and other factors, and an increase of ¥5,292 million for other financial liabilities due to a rise in lease obligations related to PARCO_ya and Kyoto ZERO GATE.

Interest-bearing debt was ¥52,820 million, down ¥5,342 million from the end of the previous fiscal year. The debt-to-equity ratio was 0.42.

Equity

Total equity was ¥126,311 million, an increase of ¥5,710 million from the end of the previous fiscal year. This mainly reflected an increase in retained earnings due to an increase in profit attributable to owners of parent. As a result, the ratio of total equity attributable to owners of parent was 48.2% and equity attributable to owners of parent per share was ¥1,244.97.

Cash Flows

Net cash provided by operating activities was ¥21,386 million, up from net cash provided of ¥7,690 million in the previous fiscal year. The main items in operating cash flow were profit before tax of ¥11,455 million, an increase in inventories related to the Shibuya PARCO redevelopment project, which is negative for cash flow, and an increase in other liabilities, which is positive for cash flow.

Net cash used in investing activities was ¥11,552 million, compared with net cash used of ¥4,961 million in the previous fiscal year. The increase in cash used was mainly due to the purchase of property, plant and equipment related to the Shibuya PARCO redevelopment project and the opening of PARCO_ya.

Net cash used in financing activities was ¥7,897 million, compared with net cash provided of ¥1,210 million in the previous fiscal year. Cash was mainly used for repayments of non-current borrowings and for dividends paid.

Capital Expenditure

Capital expenditure declined ¥5,828 million to ¥12,895 million, and included property, plant and equipment, intangible assets, investment property, and lease and guarantee deposits.

Depreciation and amortization expense increased ¥360 million to ¥5,659 million.

Fiscal 2018 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 2018, the plan's second year, we will lay the foundations for future growth by increasing profitability, distinctiveness and responsiveness to new trends in the stores business, push ahead with the Group's digital transformation by harnessing advances in technology, develop new stores and businesses, reinforce our business base by overhauling the operating structure, and improve cooperation across the PARCO Group, while also stepping up efforts to drive forward our business.

Please refer to the Interview with the President on P16 and our website for more details about the Medium-term Business Plan.

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

■ Shopping Complex Business

Ahead of the planned opening of the redeveloped New Shibuya PARCO in fall 2019, we will address changing consumer values and buying behavior by expanding our range of items for new lifestyles and by focusing on offering "value" and communicating with customers. Our aim is to create new value in the form of next-generation immersive commercial facilities and reinforce our store brands. In addition, we plan to offer new services and retail experiences tailored to individual customers in stores and online by improving CRM, utilizing AI tools and offering more payment options, in order to drive forward the Group's digital transformation.

In the stores business, we will improve our operational capabilities to establish and develop store brands for two different types of shopping facilities – Urban Complexes and Community Complexes.

Urban Complexes

Targeting discerning adults who enjoy urban lifestyles, we will strengthen our merchandise lineups in fashion, food and cosmetics, respond to the shift to "value" in consumption by creating new value for today's increasingly diverse lifestyles through innovative ideas in health, beauty and other categories, and step up our ability to promote unique culture, entertainment and other content, in order to create new value through our commercial facilities. Also, as part of efforts to expand our menu of tenant support services, we will establish incubation spaces in stores to attract startup retail tenants and support their development into major new PARCO brands for the future.

Community Complexes

With Community Complexes, we will continue to introduce high-quality food items and homewares tenants in line with our goal of creating community-focused facilities that bring color to everyday life. We will also expand our range of merchandise and our lineup of service tenants to address market needs and reinforce promotional events, aiming to improve the role of our commercial facilities as enjoyable one-stop shopping destinations to attract more diverse customers and increase customer traffic.

In customer strategy, we will keep pace with advances in technology by rolling out a range of measures, such as building ICT-based systems and designing sales promotion campaigns. Specifically, we will improve CRM activities, centered on the POCKET PARCO official smartphone app, to develop communication optimized for individual customers, aiming to create better retail experiences for each customer. In addition, to support overseas visitors, we will upgrade store environments to accommodate the growing range of payment methods and use digital media to improve communication with overseas visitors to increase transaction volume.

In store development, we will expand our business in urban markets with the planned opening of Sannomiya ZERO GATE (tentative name) in fall 2018, which will follow the March 2018 opening of Shinjuku ZERO GATE. Other store development projects include the redeveloped New Shibuya PARCO, due to open in 2019, a new store near Sumida-ku Kinshicho Station, and Okinawa Urasoe West Coast Development, a project in Okinawa Prefecture being developed by SAN-A PARCO, Inc. We have also decided to open Kawasaki ZERO GATE (tentative name) and a new store in the North Building of Daimaru Shinsaibashi, which is scheduled to open in 2021.

In new businesses, we will take various steps to make PARCO stores stand out among rival retailers. Specifically, 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, MEETSCAL Store produced by PARCO and the PARCO Stores business.

In overseas businesses, we will strengthen our agent functions to roll out the Group's range of content in the Asia market.

■ Retail Business

NEUVE A CO., LTD. will reinforce existing businesses by implementing a scrap-and-build policy and by strengthening its range of original products to increase profit margins. The company will also accelerate its digital strategy, aiming to grow profits by shifting to an omnichannel approach and reinforcing marketing.

■ Space Engineering and Management Business

PARCO SPACE SYSTEMS CO., LTD.'s strengths are its expertise and technologies built up through contracting work for PARCO and external clients. Using those strengths, the company will enhance its system for securing combined orders in building management services for external commercial facilities, while also working closely with the J. Front Retailing Group to expand its business.

■ Other Business

PARCO CO., LTD.'s entertainment business plans to strengthen its operating base by actively expanding the use of external venues due to the temporary closure of Shibuya PARCO. In fiscal 2018, we will open CINE QUINTO, a new movie theater in Shibuya, and take other steps to grow the business. Also, we plan to generate synergies with the store business by developing unique content and character-themed venues.

PARCO Digital Marketing CO., LTD. will step up efforts to cultivate external clients and expand its business by employing an ICT strategy in its core business aimed at commercial facilities, and strengthen the development of distinctive services.

Outlook for Fiscal 2018

By implementing the above initiatives, we are targeting fiscal 2018 operating revenue of ¥96,000 million, up 4.8% year on year, operating income of ¥11,750 million, up 0.3%, and profit attributable to owners of parent of ¥7,700 million, down 1.4% year on year, 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 28, 2018.

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 Statement of Financial Position

As of March 1, 2016, February 28, 2017 and February 28, 2018

	Notes	As of March 1, 2016 (IFRS transition date)	As of February 28, 2017	As of February 28, 2018
		(Millions of yen)	(Millions of yen)	(Millions of yen)
Assets				
Current assets				
Cash and cash equivalents	7	6,584	10,522	12,464
Trade and other receivables	8	9,631	9,837	10,839
Other financial assets	9 34	1,312	1,356	721
Inventories	10	3,738	10,092	13,458
Other current assets	11	1,656	1,738	1,762
Total current assets		22,923	33,547	39,245
Non-current assets				
Property, plant and equipment	12	174,096	179,843	186,791
Intangible assets	13	1,211	1,570	1,494
Investment property	14	6,839	6,521	8,493
Investments accounted for using equity method	16	385	50	21
Other financial assets	9 34	22,385	21,476	21,065
Deferred tax assets	17	4,818	2,958	1,855
Other non-current assets	11	3,000	2,838	2,867
Total non-current assets		212,736	215,258	222,590
Total assets		235,659	248,806	261,835
Liabilities and equity				
Liabilities				
Current liabilities				
Bonds and borrowings	18	19,299	20,279	8,580
Trade and other payables	20	23,317	21,310	23,780
Other financial liabilities	18 34	1,696	2,056	1,212
Income tax payables	17	2,627	1,290	1,475
Provisions	22	492	1,044	7
Other current liabilities	23	5,194	8,654	17,457
Total current liabilities		52,627	54,636	52,514
Non-current liabilities				
Bonds and borrowings	18	35,265	37,882	44,240
Other financial liabilities	18 34	30,590	28,154	33,447
Net defined benefit liability	21	2,468	2,130	1,792
Provisions	22	1,069	474	503
Other non-current liabilities	23	29	4,926	3,026
Total non-current liabilities		69,423	73,568	83,010
Total liabilities		122,051	128,205	135,524
Equity				
Share capital	24	34,367	34,367	34,367
Share premium	24	35,129	35,129	35,129
Treasury shares	24	(3)	(4)	(5)
Other components of equity	24	(285)	(184)	(209)
Retained earnings	24	44,400	51,292	57,029
Total equity attributable to owners of parent		113,607	120,600	126,311
Total equity		113,607	120,600	126,311
Total liabilities and equity		235,659	248,806	261,835

The accompanying notes are an integral part of these statements.

Consolidated Statement of Income

For the years ended February 28, 2017 and February 28, 2018

	Notes	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
		(Millions of yen)	(Millions of yen)
Operating revenue	6 26	93,780	91,621
Operating cost	27	(62,477)	(62,357)
Operating gross profit		31,302	29,263
Selling, general and administrative expense	28	(18,505)	(18,979)
Other income	29	4,967	2,853
Other expense	29	(3,561)	(1,425)
Operating profit	6	14,203	11,713
Finance income	30	169	144
Finance cost	30	(364)	(372)
Share of loss of entities accounted for using equity method	16	(339)	(29)
Profit before tax		13,669	11,455
Income tax expense	17	(4,873)	(3,646)
Profit		8,795	7,809
Profit attributable to			
Owners of parent		8,795	7,809
Profit		8,795	7,809
Earnings per share			
Basic and diluted earnings per share (Yen)	32	86.69	76.97

The accompanying notes are an integral part of these statements.

Consolidated Statement of Comprehensive Income

For the years ended February 28, 2017 and February 28, 2018

	Notes	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
		(Millions of yen)	(Millions of yen)
Profit		8,795	7,809
Other comprehensive income	31		
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income		112	6
Remeasurements of defined benefit plans		190	184
Total amount of items that will not be reclassified to profit or loss		302	191
Items that might be reclassified to profit or loss			
Cash flow hedges		44	37
Exchange differences on translation of foreign operations		(18)	6
Total amount of items that might be reclassified to profit or loss		26	44
Other comprehensive income, net of tax		328	235
Comprehensive income		9,124	8,045
Comprehensive income attributable to			
Owners of parent		9,124	8,045
Comprehensive income		9,124	8,045

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Equity

For the years ended February 28, 2017 and February 28, 2018

		Equity attributable to owners of parent					
					Other components of equity		
	Notes	Share capital	Share premium	Treasury shares	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Cash flow hedges
		(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2016		34,367	35,129	(3)	(260)	—	(25)
Profit		—	—	—	—	—	—
Other comprehensive income		—	—	—	112	190	44
Total comprehensive income		—	—	—	112	190	44
Purchase of treasury shares	24	—	—	(0)	—	—	—
Disposal of treasury shares	24	—	(0)	0	—	—	—
Dividends	25	—	—	—	—	—	—
Transfer to retained earnings		—	—	—	(36)	(190)	—
Total amount of transactions with owners		—	(0)	(0)	(36)	(190)	—
Balance as of February 28, 2017		34,367	35,129	(4)	(185)	—	19

		Equity attributable to owners of parent				
		Other components of equity				
	Notes	Exchange differences on translation of foreign operations	Total	Retained earnings	Total	Total
		(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2016		—	(285)	44,400	113,607	113,607
Profit		—	—	8,795	8,795	8,795
Other comprehensive income		(18)	328	—	328	328
Total comprehensive income		(18)	328	8,795	9,124	9,124
Purchase of treasury shares	24	—	—	—	(0)	(0)
Disposal of treasury shares	24	—	—	—	0	0
Dividends	25	—	—	(2,130)	(2,130)	(2,130)
Transfer to retained earnings		—	(227)	227	—	—
Total amount of transactions with owners		—	(227)	(1,903)	(2,131)	(2,131)
Balance as of February 28, 2017		(18)	(184)	51,292	120,600	120,600

The accompanying notes are an integral part of these statements.

	Notes	Equity attributable to owners of parent					
					Other components of equity		
		Share capital	Share premium	Treasury shares	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Cash flow hedges
		(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2017		34,367	35,129	(4)	(185)	—	19
Profit		—	—	—	—	—	—
Other comprehensive income		—	—	—	6	184	37
Total comprehensive income		—	—	—	6	184	37
Purchase of treasury shares	24	—	—	(1)	—	—	—
Disposal of treasury shares	24	—	—	—	—	—	—
Dividends	25	—	—	—	—	—	—
Transfer to retained earnings		—	—	—	(15)	(184)	(60)
Total amount of transactions with owners		—	—	(1)	(15)	(184)	(60)
Balance as of February 28, 2018		34,367	35,129	(5)	(193)	—	(3)

	Notes	Equity attributable to owners of parent				
		Other components of equity				
		Exchange differences on translation of foreign operations	Total	Retained earnings	Total	Total
		(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2017		(18)	(184)	51,292	120,600	120,600
Profit		—	—	7,809	7,809	7,809
Other comprehensive income		6	235	—	235	235
Total comprehensive income		6	235	7,809	8,045	8,045
Purchase of treasury shares	24	—	—	—	(1)	(1)
Disposal of treasury shares	24	—	—	—	—	—
Dividends	25	—	—	(2,333)	(2,333)	(2,333)
Transfer to retained earnings		—	(260)	260	—	—
Total amount of transactions with owners		—	(260)	(2,072)	(2,334)	(2,334)
Balance as of February 28, 2018		(12)	(209)	57,029	126,311	126,311

The accompanying notes are an integral part of these statements.

Consolidated Statement of Cash Flows

For the years ended February 28, 2017 and February 28, 2018

	Notes	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
		(Millions of yen)	(Millions of yen)
Cash flows from operating activities			
Profit before tax		13,669	11,455
Depreciation and amortization expense		5,298	5,659
Impairment loss		802	497
Increase (decrease) in net defined benefit liability		(53)	(337)
Finance income		(169)	(144)
Finance cost		364	372
Share of (profit) loss of entities accounted for using equity method		339	29
Loss (gain) on sales and retirement of non-current assets		(3,092)	146
Decrease (increase) in trade receivables		(22)	(1,133)
Decrease (increase) in inventories		(6,354)	(3,365)
Increase (decrease) in trade payables		(1,376)	655
Increase/decrease in other assets/liabilities		(4,380)	10,391
Other, net		629	449
Subtotal		5,654	24,677
Interest and dividends received		34	32
Interest paid		(425)	(414)
Proceeds from compensation		7,855	—
Payment resulting from store closing		(758)	(276)
Income taxes paid		(4,670)	(2,631)
Net cash provided by (used in) operating activities		7,690	21,386
Cash flows from investing activities			
Payments into time deposits		(78)	—
Proceeds from withdrawal of time deposits		237	81
Purchase of property, plant and equipment		(14,792)	(11,273)
Proceeds from sales of property, plant and equipment		9,906	19
Payments for investments in real estates		(203)	(709)
Purchase of investment securities		(2)	(3)
Proceeds from sales of investment securities		195	96
Payments for lease and guarantee deposits		(387)	(387)
Proceeds from collection of lease and guarantee deposits		1,164	1,249
Other, net		(1,000)	(626)
Net cash provided by (used in) investing activities		(4,961)	(11,552)
Cash flows from financing activities			
Net increase (decrease) in current borrowings		—	1,000
Net increase (decrease) in commercial papers		(9,299)	(2,099)
Proceeds from non-current borrowings		21,000	14,000
Repayments of non-current borrowings		(8,100)	(18,180)
Net decrease (increase) in treasury shares		(0)	(1)
Dividends paid	25	(2,130)	(2,333)
Other, net		(258)	(282)
Net cash provided by (used in) financing activities		1,210	(7,897)
Net increase (decrease) in cash and cash equivalents		3,939	1,936
Cash and cash equivalents at beginning of period		6,584	10,522
Effect of exchange rate changes on cash and cash equivalents		(2)	5
Cash and cash equivalents at end of period	7	10,522	12,464

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Reporting Entity

PARCO CO., LTD. (hereinafter referred to as the "Company") is a company incorporated in Japan. The addresses of its registered head office and principal business offices are disclosed on the Company's website (URL http://www.parco.co.jp/en/).

The consolidated financial statements of the Company, which were prepared at the end of the fiscal year on February 28, 2018, comprise the Company and its subsidiaries (hereinafter referred to as the "Group"), as well as equity in associates of the Company.

For the Group's major business activities, please refer to "6. Segment Information." In addition, the Company's parent company is J. FRONT RETAILING Co., Ltd.

2. Basis of Preparation

(1) Compliance with IFRS and first-time adoption

Pursuant to the provisions of Article 93 of the "Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance Order No. 28 of 1976), the consolidated financial statements of the Group have been prepared in compliance with International Financial Reporting Standards (IFRS) since the Company qualifies as a "Specified Company Complying with Designated International Accounting Standards" prescribed in Article 1-2 of the Regulation.

The Group has adopted IFRS for the first time in the fiscal year ended February 28, 2018, and the date of transition to IFRS is March 1, 2016. The impact of the transition to IFRS on financial position, operating results and cash flows of the Group on the IFRS transition date and in the comparative year is provided in "40. First-Time Adoption."

Except for IFRS that have not been early adopted and exemptions permitted under IFRS 1 "First-time Adoption of International Financial Reporting Standards" (hereinafter referred to as "IFRS 1"), the Group's accounting policies are in accordance with IFRS effective as of February 28, 2018.

The exemptions adopted are provided in "40. First-Time Adoption."

(2) Basis of measurement

The Group's consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, assets and liabilities related to the post-employment benefit plan measured at fair value as stated in "3. Significant Accounting Policies."

(3) Functional currency and presentation currency

The Group's consolidated financial statements are presented in Japanese yen, which is the Company's functional currency, and figures are rounded down to the nearest million yen.

(4) Early adoption of new accounting standards

The Group has early adopted IFRS 9 "Financial Instruments" (amended in July 2014; hereinafter referred to as "IFRS 9").

3. Significant Accounting Policies

(1) Basis of consolidation

1) Subsidiaries

Subsidiaries are entities controlled by the Group. Control means the power to govern the financial and operating policies of the entity so as to obtain benefits from its business activities.

The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date when the Group gains control until the date when it ceases to control the subsidiary.

In cases where the accounting policies applied by a subsidiary are different from those applied by the Group, adjustments are made to the subsidiary's financial statements, if necessary. All intergroup balances, transactions and unrealized gains or losses arising from transactions within the Group are eliminated in preparing the consolidated financial statements.

When the Company retains control when there has been partial disposal of ownership interest in a subsidiary, the partial disposal is accounted for as an equity transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity attributable to owners of parent.

When there are subsidiaries whose fiscal year-ends are different from that of the Company because the legal system of the region where such subsidiary is located does not allow it to have the same fiscal yearend as that of the Company, or for other reasons, additional adjustments are made when preparing the consolidated financial statements to prepare such subsidiary's financial statements as of the fiscal year-end of the Company, or to make similar preparations. Furthermore, the fiscal year-end of such subsidiaries is December 31.

2) Associates

An associate is defined as an entity over which the Group has significant influence on financial and operating policies but does not have control over such entity.

Investments in associates are recognized at cost at the time of the acquisition, and are accounted for by the equity method thereafter. Goodwill recognized on acquisition is included in investments in associates.

For associates whose fiscal year-ends are different from that of the Company, due to relationships with other shareholders or other reasons, adjustments are made by additionally preparing their financial statements as of the fiscal year-end of the Company or other means.

(2) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the acquisition date fair value of the assets transferred, liabilities assumed and equity instruments issued by the Company in exchange for control of the acquiree. Any excess of the consideration transferred over the fair value of identifiable assets and liabilities is recognized as goodwill in the consolidated statements of financial position. Conversely, any deficit is immediately recognized as profit in the consolidated statements of income.

Acquisition-related costs are expensed as incurred.

The additional acquisition of non-controlling interests is accounted for as an equity transaction, and therefore no goodwill is recognized with respect to such transaction.

The Group applies exemption of IFRS 1 and does not retrospectively apply IFRS 3 "Business Combination" (hereinafter referred to as "IFRS 3") for the business combinations that occurred before the date of transition to IFRS (March 1, 2016). Accordingly, goodwill that resulted from acquisitions that occurred before the date of transition to IFRS is recorded at the carrying amount under former accounting standards (Japanese GAAP) on the date of transition to IFRS after it is tested for impairment.

(3) Foreign currency translation

1) Foreign currency transactions

Each entity of the Group has set its own functional currency as the currency of the primary economic environment in which the entity operates. Transactions of each entity are measured at the functional currency.

When each entity prepares non-consolidated financial statements, transactions in currencies other than its functional currency are translated using the exchange rate prevailing at the dates of transactions.

Non-monetary items that are denominated and measured at cost in foreign currencies are translated using the exchange rate prevailing at the dates of transactions. Non-monetary items that are denominated and measured at fair value in foreign currencies are translated using the exchange rates at the date on which the fair value was measured. Foreign currency monetary assets and liabilities at the end of the reporting period are translated using exchange rates at the end of the reporting period.

Exchange differences arising from translation or settlement are recognized as profit or loss. However, when gains or losses on non-monetary items are recorded in other comprehensive income, exchange differences are also recorded in other comprehensive income.

2) Financial statements of foreign operations

Assets and liabilities of foreign subsidiaries, etc., are translated into Japanese yen at the exchange rate prevailing at the end of the reporting period. Income and expenses of foreign subsidiaries, etc., are translated into Japanese yen at the exchange rates that approximate the rates at the dates of the transactions, unless there are significant change in the exchange rates.

Exchange differences arising from translation of the financial statements of foreign subsidiaries, etc., are recognized in other comprehensive income. Exchange differences for foreign subsidiaries, etc., are recognized as profit or loss in the period during which the foreign subsidiaries, etc., are disposed of.

The Group has applied the exemption of IFRS 1, and deemed cumulative exchange differences for foreign subsidiaries, etc., arising before the date of transition as zero and transferred all of them to retained earnings.

(4) Financial instruments

1) Non-derivative financial assets

Trade and other receivables are initially recognized on the date when they are incurred. All other financial assets are initially recognized on the trade date when the Group becomes a party to the contractual provisions of the financial instruments.

An overview of classification and measurement model of non-derivative financial assets is as follows:

(i) Financial assets measured at amortized cost

With regard to investments in debt instruments, when the contractual cash flows consist of principal and interest paid on specified dates, and the Group holds such investments based on a business model whose objective is to hold the instrument to collect contractual cash flows, the debt instruments are initially measured at fair value. Transaction cost directly attributable to acquisition of financial assets measured at amortized cost is included in the fair value at the time of acquisition.

After the initial recognition, amortization cost is measured using the effective interest method. Interest revenue, foreign exchange gains and losses and impairment losses on financial assets measured at amortized cost are recognized in profit or loss.

(ii) Financial assets measured at fair value through other comprehensive income (hereinafter the "financial assets at FVTOCI")

With regard to investments in debt instruments, when the contractual cash flows consist of principal and interest paid on specified dates, and the Group holds such investments based on a business model whose objective is both to collect contractual cash flows and to sell the financial assets, the debt instruments are measured at fair value. In this case, interest revenue measured using the effective interest method, foreign exchange gains and losses and impairment losses are recognized in profit or loss, and changes in the fair value excluding them are recognized in other comprehensive income (may be reclassified to profit or loss).

For investments in equity instruments that are not held for trading, the Group may make an election (irrevocable) at the initial recognition to measure them at fair value and recognize any changes in the fair value in other comprehensive income. In this case, changes in the fair value are recognized in other comprehensive income (not reclassified to profit or loss). However, dividends are recognized in profit or loss.

Transaction cost directly attributable to acquisition of financial assets at FVTOCI is included in the fair value of financial assets initially recognized.

(iii) Financial assets measured at fair value through profit or loss (hereinafter the "financial assets at FVTPL")

Financial assets other than above are measured at fair value with changes in fair value recognized in profit or loss. Transaction cost directly attributable to acquisition of financial assets at FVTPL is recognized in profit or loss as incurred.

The Group does not designate any debt instrument as measured at fair value through profit or loss to remove or significantly reduce an accounting mismatch.

(iv) Impairment of financial assets

The Group measures impairment of debt instruments measured at amortized cost or at fair value through other comprehensive income based on its evaluation at the end of each reporting period whether there is a significant increase in credit risk of financial assets or groups of financial assets since initial recognition. Specifically, when there is no significant increase in credit risk since initial recognition, expected credit losses for 12 months are measured as allowance for doubtful accounts. On the other hand, when there is a significant increase in credit risk since initial recognition, lifetime expected credit losses of the financial assets are measured as allowance for doubtful accounts. Whether credit risk is significantly increased or not is determined based on the changes in default risk.

For trade receivables, lease receivables, etc., without a significant financing component, allowance for doubtful accounts is measured at an amount equal to lifetime expected credit losses.

(v) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights to cash flows from the financial asset expire, when it transfers the contractual rights to receive cash flows from the financial asset in a transaction transferring substantially all the risks and rewards related to ownership of the financial asset, and when it neither transfers nor retains substantially all the risks and rewards related to ownership of the financial asset, but does not retain control over the financial asset. Even if the Group transfers an asset recognized in the statements of financial position, the Group does not derecognize the transferred asset when it concludes a transaction that retains all or substantially all the risks and rewards related to the transferred asset or part of the transferred asset. Any interests in transferred financial assets that are created or continuously retained by the Group are recognized as a separate asset or liability.

2) Non-derivative financial liabilities

The Group recognizes financial liabilities at the date of transaction when the Group becomes a party to the contract for the financial instrument.

The Group derecognizes a financial liability when the financial liability is extinguished, i.e., when the contractual obligation is discharged or cancelled or expired.

The Group principally has borrowings, bonds, trade payables, other short-term payables, etc., as non-derivative financial liabilities. These financial liabilities are initially recognized at fair value and subsequently measured at amortized cost based on the effective interest method.

3) Derivatives and hedge accounting

The Group uses derivatives to hedge interest rate fluctuation risk and foreign exchange fluctuation risk. Derivatives used by the Group include interest rate swaps.

At the time of initial designation of the hedge, the Group documents the relationship between the hedging instrument and the hedged item, the risk management objective, the strategy for implementation of the hedge transaction, the hedging instrument and the hedged item, the nature of hedged risk, the method for assessing effectiveness of the hedge relationship and the method of measuring the effective portion and ineffective portion.

The Group assesses whether the hedging instrument is expected to be highly effective in achieving offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk throughout the period for which the hedge is designated, at the inception of the hedge and on an ongoing basis.

To apply cash flow hedges to forecast transactions, the possibility that the forecast transaction occurs must be very high.

Derivatives are initially recognized at fair value and the transaction costs are recognized as profit or loss when they are incurred. After the initial recognition, derivatives are measured at fair value, and any changes in the fair value are accounted for as follows:

(i) Cash flow hedges

When a derivative is designated as a hedging instrument to hedge changes in cash flows attributable to certain risks related to highly likely forecast transactions that could affect recognized assets and liabilities or profit or loss, the effective portion of the hedge in changes in fair value of the derivative is included in other components of equity as "cash flow hedges." When a forecast transaction that is hedged will subsequently cause the recognition of a non-financial asset or non-financial liability, the balance of cash flow hedges is directly transferred to the initial cost or other carrying amount of the asset or liability. The balance of other cash flow hedges not included in the above is deducted from other comprehensive income in the consolidated statements of comprehensive income and transferred to profit or loss under the same item as the hedged item in the same period as the period in which cash flows of the hedged item affect profit or loss. The ineffective portion of the hedge in changes in fair value of the derivative is immediately recognized in profit or loss.

When the hedge does not meet requirements of hedge accounting, the hedging instrument is expired, sold, terminated or exercised, or the designation of the hedge is cancelled, the application of hedge accounting is discontinued prospectively.

In the case that hedge accounting is discontinued, the Group continues to record the balance of cash flow hedges that have already been recognized in other comprehensive income until the forecast transaction affects profit or loss. When forecast transactions are no longer expected to occur, the balance of cash flow hedges is immediately recognized in profit or loss.

(ii) Fair value hedges

Changes in the fair value of hedging instruments are recognized as profit or loss. The carrying amounts of hedged items are adjusted and a profit or loss is recognized for the portion of changes in the fair value of hedged items caused by hedged risk.

(5) Cash and cash equivalents

Cash and cash equivalents consist of cash, demand deposits, and short-term investments with maturities of three months or less that are readily convertible to cash and subject to insignificant risk of change in value.

(6) Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. The acquisition cost is calculated mainly using the identified cost method, and includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(7) Assets held for sale

If the carrying amounts of non-current assets are recovered principally through a sale transaction rather than through continuing use, these assets (or disposal groups) are classified as "Assets held for sale."

The condition for classifying an asset under "assets held for sale" can only be met by an asset whose sale is highly probable, and which is available for immediate sale in its present condition. The management must have committed to the execution of a sales plan for that asset, and the sale of the asset must be scheduled to be completed within one year from the date it is classified as an asset held for sale.

An asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

After property, plant and equipment, intangible assets and investment property have been classified under "assets held for sale," depreciation or amortization will not be applied to these assets.

(8) Property, plant and equipment

Property, plant, and equipment is measured using the cost model and stated at cost less accumulated depreciation and accumulated impairment.

The acquisition cost includes costs directly attributable to the acquisition of the asset, costs related to disassembly, retirement and site restoration, and borrowing costs that should be capitalized.

Depreciation of assets other than land and construction in progress is calculated on the straight-line method over the estimated useful lives of the assets. The estimated useful lives of major components of property, plant and equipment are as follows:

- Buildings and structures (including buildings and structures in trust) 3 to 60 years

The estimated useful lives, residual values and depreciation methods are reviewed at the end of the fiscal year, and if there are any changes made, those changes are applied prospectively as a change in an accounting estimate.

(9) Intangible assets

1) Goodwill

The Company measures goodwill at the amount calculated by deducting the net recognized amount (usually, fair value) of identifiable assets acquired and liabilities assumed at the date of acquisition from fair value of consideration for the transfer including the recognized amount of non-controlling interests in the acquiree, which is measured at the date of acquisition. Goodwill is not amortized. Instead, it is tested for impairment in each period, or whenever there are indications of potential impairment. Impairment losses of goodwill are recognized in the consolidated statements of income, and not reversed subsequently. In addition, goodwill is carried at cost less accumulated impairment on consolidated statements of financial position.

2) Other intangible assets

Intangible assets are measured using the cost model and stated at cost less accumulated amortization and accumulated impairment.

Intangible assets acquired separately are measured at cost at initial recognition.

After the initial recognition, intangible assets other than goodwill are amortized using the straight-line method over respective estimated useful lives, except for intangible assets with indefinite useful lives. The estimated useful lives of major intangible assets are as follows:

- Software 5 years

The estimated useful lives, residual values and amortization methods are reviewed at the end of the fiscal year, and if there are any changes made, those changes are applied prospectively as a change in an accounting estimate.

(10) Leases

Leases are classified as finance leases whenever substantially all the risks and rewards incidental to ownership of leased assets are transferred under the contract. All other leases are classified as operating leases. Determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement, in accordance with IFRIC 4, Determining whether an Arrangement contains a Lease, even if the arrangement does not have the form of lease from the standpoint of the law.

(Lessee)

In finance lease transactions, leased assets are recorded in the consolidated statements of financial position at the inception of the lease term at the lower of the fair value of the leased property or the present value of the aggregated minimum lease payments, each determined at the inception of the lease. Leased assets are depreciated over the shorter of their estimated useful lives or the lease term.

Lease payments are apportioned between the interest expense based on the interest method and the payment of the lease obligations, and interest expense is recognized in the consolidated statements of income.

Lease payments under an operating lease are recognized as an expense on the straight-line method over the lease term in the consolidated statements of income. In addition, contingent rent is recognized as an expense in the period in which it is incurred.

(Lessor)
In finance lease transactions, at the inception of the lease, lease receivables are recorded at the net receivable amount of the lease investment as of the starting date of the lease term. In operating lease transactions, leased assets are recorded in the consolidated statements of financial position, and lease income is recognized as revenue in the consolidated statements of income using the straight-line method over the lease term. In addition, contingent rent is recognized as revenue in the period in which it occurs.

(11) Investment property

Investment property is property held to earn rentals or for capital gains or both.

Investment property is measured using the cost model and stated at cost less accumulated depreciation and accumulated impairment. (For the depreciation method and useful lives, please refer to "(8) Property, plant and equipment")

When it is difficult to account for investment property and other portions separately, the entire property is accounted for as investment property only if the owner-occupied portion is insignificant.

(12) Impairment of non-financial assets

The Group determines every reporting period whether there is any indication that carrying amounts of the Group's non-financial assets excluding inventories and deferred tax assets may be impaired. If any indication exists, the recoverable amount of the asset is estimated. For goodwill and intangible assets with indefinite useful lives or not yet available for use, the recoverable amount is estimated at the same time each year.

The recoverable amount of an asset or a cash-generating unit is the larger of its value in use and fair value less cost of disposal. In calculating value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects the time value of money and the risks specific to the asset.

The cash-generating unit is the smallest group of funds that generates cash inflows, from continuous use, that are largely independent of the cash inflows from other assets or groups of assets.

Since the Group's corporate assets do not generate independent cash inflows, the recoverable amount of cash-generating units to which the corporate assets are attributed is determined if there is any indication of impairment in the corporate assets.

An impairment loss is recognized as profit or loss, if the carrying amount of an asset or cash-generating unit exceeds the recoverable amount. The impairment loss recognized in association with a cash-generating unit is first allocated to reduce the carrying amount of goodwill allocated to this unit, and then the carrying amounts of other assets in the cash-generating unit are reduced on a pro rata basis.

Impairment losses related to goodwill are not reversed. With regard to other assets, for previously recognized impairment losses, the Group assesses whether there is any indication that the loss has decreased or been extinguished at the end of each reporting period. An impairment loss is reversed when there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed up to the carrying amount that would have been determined had no impairment loss been recognized, net of necessary depreciation and amortization.

(13) Employee benefits

As retirement benefit plans for employees, the Group has defined benefit plans (lump-sum retirement plan, corporate pension fund plan, and prepaid retirement benefit plan) and defined contribution plans.

The projected unit credit method is used to determine the present value of defined benefit obligation, related current service cost and past service cost.

The discount rate is determined by reference to market yields at the end of the reporting period on high quality corporate bonds corresponding to the discount period established based on the period to the date when the future benefits for each fiscal year are to be paid.

Net defined benefit liability or asset is determined as the present value of defined benefit obligation less the fair value of plan assets.

Remeasurements of net defined benefit liability or asset are recognized as other comprehensive income and immediately transferred from other components of equity to retained earnings. Remeasurements consist of actuarial gains and losses on defined benefit obligation, return on plan assets (excluding the amount of interest revenue on plan assets) and others.

Past service costs are immediately accounted for as profit or loss.

The contributions to the defined contribution plans are recognized as expenses over the period for which employees have rendered service.

(14) Provisions

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, when it is highly probable that an outflow of financial resources will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation. To determine the amount of a provision, when the effect of the time value of money is material, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects the time value of money and the risks specific to the liability. Increases in provisions over time are recognized in finance costs.

1) Asset retirement obligations
   Asset retirement obligations are recorded at the estimated amount of restoration costs for leased stores, etc., for which the Group has obligations to restore them to the original state at the time when the lease arrangement is terminated and costs for removing harmful substances related to non-current assets.
2) Provision for loss on store closing
   Of losses expected to arise in future for stores decided to be closed, amounts meeting the requirements for provisions are recorded.

(15) Revenue

Revenue is measured at the fair value of the consideration received from the sale of goods, rendering of services, construction contracts, etc., less any discounts, rebates and sales-related taxes.

1) Sale of goods

Revenue from the sale of goods is recognized when the Group has transferred the significant risks and rewards of ownership of the goods to the buyer; the Group retains neither continuing managerial involvement nor effective control over the goods; it is probable that economic benefits related to the transaction will flow to the Group; and these benefits and corresponding costs can be measured reliably.

For sales under a customer loyalty program in which points are granted at the time of sales, fair value of the points is estimated and the revenue less the estimated fair value is recognized.

2) Rendering of services

Rendering of services is principally the operation of shopping centers, and revenue is recognized to the extent that services are rendered.

3) Construction contracts

When the outcome of a construction contract can be estimated reliably, the percentage of completion method is applied. Under the percentage of completion method, revenue is recognized based on the percentage of construction costs incurred until the reporting date against estimated total costs required for the construction contract, etc. Reliable estimation of the outcome of a construction contract is deemed possible when all the following conditions are satisfied:

- total contract revenue can be measured reliably;
- it is probable that the economic benefits associated with the contract will flow to the entity;
- both the contract costs to complete the contract and the stage of contract completion at the end of the reporting period can be measured reliably; and
- the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

If reliable estimation of the outcome of a construction contract is not possible, contract revenue shall be recognized only for contract costs incurred that have probable recoverability.

When it is probable that total contract costs will exceed total contract revenue, the excess amount shall be recognized as an expense immediately.

4) Interest revenue

Interest revenue is recognized using the effective interest method.

5) Gross and net presentation of revenue

When the Group conducts transactions as a principal, revenue is presented at the gross amount of consideration received from customers. When the Group conducts transactions as an agent for the benefit of a third party, revenue is presented at the net amount calculated by deducting the amount collected for the benefit of the third party from the gross amount of consideration received from customers.

The following indicators are taken into account in the determination of whether the Group conducts a transaction as a principal or agent:

- Whether the Group has principal responsibility for providing the goods or services to the customer or for fulfilling the order
- Whether the Group has inventory risk before or after the customer order, during shipping or on return
- Whether the Group has discretion in establishing prices directly or indirectly
- Whether the Group bears credit risk of the customer in association with receivables from the customer
- Whether the amount received is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed

(16) Income tax

Income tax consists of current taxes and deferred taxes. Income tax is recognized as profit or loss, except for taxes related to business combinations and taxes related to items that are recognized directly in equity or in other comprehensive income.

1) Current taxes

Current taxes are measured in the amount of the expected tax payables to or receivables from the taxation authorities. Calculation of the amount of tax is based on the tax rates and tax laws enacted or substantively enacted by the end of the reporting period in countries where the Group conducts businesses and earns taxable income.

2) Deferred taxes

Deferred taxes are recognized for temporary differences between the carrying amounts of assets or liabilities in the statements of financial position and its tax base, and for unused tax losses and unused tax credits.

No deferred tax assets and liabilities are recognized on following temporary differences:

- Temporary differences arising from the initial recognition of goodwill
- Temporary differences arising from initial recognition of assets and liabilities from transactions that are not business combinations and affect neither accounting income nor taxable income
- Taxable temporary differences associated with investments in subsidiaries and associates, where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future

A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized, and a deferred tax liability is recognized for all taxable temporary differences in principle.

The carrying amount of deferred tax assets is reviewed in each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to use all or part of the benefit of the deferred tax assets. Unrecognized deferred tax assets are reassessed in each reporting period and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates and by the tax laws that are expected to apply to the period when the assets are realized or the liabilities are settled, based on the statutory tax rates and tax laws enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to offset current tax assets against tax liabilities and income taxes are levied by the same taxation authority on the same taxable entity.

(17) Earnings per share

Basic earnings per share are calculated by dividing profit (loss) attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period, adjusting treasury shares.

(18) Operating segments

Operating segments are constituent units of business activities that earn revenue and incur costs including transactions with other operating segments. Business results of all the operating segments, for which the financial information is separately available, are reviewed periodically by the Management Committee for the purpose of allocating management resources to each segment and evaluating business results.

(19) Treasury shares

Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized on the purchase, sale or cancellation of the Company's treasury shares. Any difference between the carrying amount and consideration received on the sale of treasury shares is recognized as a share premium.

(20) Borrowing costs

The Group includes borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, that is, qualifying asset as part of the cost until the asset is substantially ready for its intended use or sale.

All borrowing costs other than those above are recognized as profit or loss in the fiscal period during which they are incurred.

4. Significant Accounting Estimates and Judgments

In the preparation of consolidated financial statements, the management is required to make judgments, estimates and assumptions that affect the application of accounting policies as well as amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

The estimates and their underlying assumptions are reviewed on an ongoing basis. The effects of the review of accounting estimates are recognized in the accounting period in which the review was conducted and future accounting periods.

Judgments and estimates made by the management that significantly affect the amounts in the consolidated financial statements are as follows:

(1) Impairment of property, plant and equipment, intangible assets and investment property

The Group conducts impairment tests if there is an indication that property, plant and equipment, intangible assets and investment property may be impaired. The Group performs an impairment test on goodwill at least once a year until the end of the fiscal year regardless of whether there is any indication that the goodwill may be impaired.

Impairment tests are performed by comparing the carrying amount and the recoverable amount of the asset. If the recoverable amount is less than the carrying amount, an impairment loss is recognized.

In calculating the recoverable amount, the Group estimates the discounted present value of future cash flows generated from use of the asset and the discounted present value of future cash flows generated from ultimate disposal of the asset. These estimates are based on management's best estimates, but may differ from actual results due to effects of changes in uncertain future economic conditions.

(2) Useful lives of property, plant and equipment and investment property

The useful lives of property, plant and equipment and investment property are reviewed at the end of the fiscal year, and if there are any changes made, those changes are applied prospectively as a change in an accounting estimate.

If revisions to the useful lives become necessary, such revisions could have a material impact on the amounts recognized in the consolidated financial statements in future accounting periods.

(3) Recoverability of deferred tax assets

The Group recognizes deferred tax assets to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized, and the judgment of the recoverability is made on the basis of an estimate for taxable income for each future fiscal year determined based on the Group's business plan. The estimate for taxable income for future fiscal years may be affected by changes in uncertain future economic conditions.

(4) Provisions

The Group recognizes asset retirement obligations and provision for loss on store closing as provisions in the consolidated statements of financial position.

The amount recognized as provisions is estimated based on best estimates, which take into account past records and others on the reporting date, for expenditure necessary to settle current obligations but may differ from actual results.

(5) Post-employment benefits

The Group has post-employment defined benefit plans for employees and retirees. The present value of defined benefit obligations, service costs and others are determined based on various actuarial assumptions. For actuarial assumptions, a variety of factors, such as discount rates, future payment of salaries, those who withdraw from the plan in the future and life expectancy of members, are estimated. These estimates are made based on management's best estimates, but may differ from actual results due to effects of changes in uncertain future economic conditions and amendment or promulgation of relevant laws and regulations.

5. Accounting Standards that have been published but not yet applied

The following accounting standards and interpretations were newly established or revised by the approval date of the consolidated financial statements. The Group has not early applied these standards or interpretations.

The impact of IFRS 15 is judged to be immaterial, and the impact of IFRS 16 cannot be estimated at this point.

IFRS	Mandatory application (From the fiscal year beginning on or after)	Applicable to the Group from the	Description of new standards and interpretations or revisions
IFRS 15 Revenue from Contracts with Customers	January 1, 2018	Fiscal year ending February 28, 2019	Revision of accounting treatment for revenue recognition
IFRS 16 Leases	January 1, 2019	Fiscal year ending February 29, 2020	Revision of accounting treatment for leases

6. Segment Information

(1) Overview of reportable segments

The Group's reportable segments are components of the Group for which discrete financial information is available and which are subject to periodic reviews at the Management Committee in order to make decisions about resources to be allocated to the respective segments and to assess their respective performances.

The Group operates businesses focusing on shopping centers, and, taking into consideration the content of services, the way of providing them, and other factors, aggregates its businesses into the following reportable segments: the Shopping Complex Business, Retail Business, Space Engineering and Management Business, and Other Business.

The Shopping Complex Business undertakes the development, management, supervision and operation of shopping centers.

The Retail Business undertakes the sale of personal goods, general merchandise, and other products. The Space Engineering and Management Business undertakes interior design and construction, and building maintenance, including cleaning, safety and security services, and facilities maintenance. The Other Business operates an entertainment business and an Internet-related business.

(2) Segment revenues and performance

Revenues and performance of the Group's reportable segments are as follows.

Intersegment transactions are based on prevailing market prices.

Fiscal year ended February 28, 2017

	Shopping Complex Business	Retail Business	Space Engineering and Management Business	Other Business	Total	Adjustments (Note)	Consolidated
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Operating revenue							
Revenue from external customers	52,964	21,532	13,584	5,697	93,780	—	93,780
Intersegment revenue	899	—	6,944	440	8,283	(8,283)	—
Total	53,864	21,532	20,528	6,137	102,064	(8,283)	93,780
Segment profit (Operating profit)	13,179	205	773	45	14,204	(0)	14,203
Finance income	—	—	—	—	—	—	169
Finance cost	—	—	—	—	—	—	(364)
Share of loss of entities accounted for using equity method	—	—	—	—	—	—	(339)
Profit before tax	—	—	—	—	—	—	13,669
Segment assets	242,878	7,520	9,299	3,232	262,931	(14,125)	248,806
Other information							
Depreciation and amortization expense	4,781	340	137	72	5,332	(33)	5,298
Impairment loss	582	216	12	14	825	(23)	802
Increase in property, plant and equipment and intangible assets	15,230	735	44	37	16,048	(117)	15,931

(Note) Adjustments are eliminations of intersegment transactions.

Fiscal year ended February 28, 2018

	Shopping Complex Business	Retail Business	Space Engineering and Management Business	Other Business	Total	Adjustments (Note)	Consolidated
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Operating revenue							
Revenue from external customers	50,491	21,216	14,302	5,609	91,621	—	91,621
Intersegment revenue	859	—	7,096	548	8,504	(8,504)	—
Total	51,351	21,216	21,399	6,158	100,125	(8,504)	91,621
Segment profit (Operating profit)	10,964	75	652	53	11,745	(32)	11,713
Finance income	—	—	—	—	—	—	144
Finance cost	—	—	—	—	—	—	(372)
Share of loss of entities accounted for using equity method	—	—	—	—	—	—	(29)
Profit before tax	—	—	—	—	—	—	11,455
Segment assets	255,643	6,854	10,092	3,166	275,758	(13,922)	261,835
Other information							
Depreciation and amortization expense	5,160	360	124	71	5,716	(56)	5,659
Impairment loss	235	266	—	—	501	(4)	497
Increase in property, plant and equipment and intangible assets	12,262	242	43	58	12,607	(99)	12,507

(Note) Adjustments are eliminations of intersegment transactions.

(3) Information about products and services

Information about products and services for the fiscal years ended February 28, 2017 and February 28, 2018 is omitted as similar information is provided in "(1) Overview of reportable segments" and "(2) Segment revenues and performance."

(4) Information about geographical areas

As operating revenue from external customers in Japan for the fiscal years ended February 28, 2017 and February 28, 2018 accounted for the majority of operating revenue in the consolidated statements of income, this information is omitted.

In addition, as the amounts of non-current assets located in Japan accounted for the majority of the amounts of non-current assets in the consolidated statements of financial position, this information is omitted.

(5) Information about major customers

Information about major customers is omitted, as operating revenue from a specific customer of operating revenue from external customers for the fiscal years ended February 28, 2017 and February 28, 2018 was less than 10% of operating revenue in the consolidated statements of income.

7. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Cash and deposits	6,584	10,522	12,464

(Note) "Cash and cash equivalents" recorded in the consolidated statements of financial position as of the IFRS transition date (March 1, 2016), February 28, 2017 and February 28, 2018 are equal to "cash and cash equivalents" recorded in the consolidated statements of cash flows.

8. Trade and Other Receivables

The breakdown of trade and other receivables is as follows.

Notes receivable, operating accounts receivable and accounts receivable-other are classified as financial assets measured at amortized cost.

	IFRS Transition Date (March 1, 2016) (Millions of yen)	As of February 28, 2017 (Millions of yen)	As of February 28, 2018 (Millions of yen)
Notes receivable	2	117	118
Operating accounts receivable	7,603	7,571	7,392
Accounts receivable-other	1,139	1,319	1,055
Accounts receivable from completed construction contracts	886	827	1,205
Lease receivables	—	—	1,066
Total	9,631	9,837	10,839

Of the above, there are no trade and other receivables expected to be recovered more than 12 months after the IFRS transition date (March 1, 2016) or February 28, 2017. Trade and other receivables expected to be recovered more than 12 months after February 28, 2018 are 160 million yen.

9. Other Financial Assets

The breakdown of other financial assets is as follows:

	IFRS Transition Date (March 1, 2016) (Millions of yen)	As of February 28, 2017 (Millions of yen)	As of February 28, 2018 (Millions of yen)
Other financial assets			
Financial assets measured at amortized cost			
Lease and guarantee deposits	22,831	22,197	21,399
Loans receivable	153	121	110
Time deposits	257	80	—
Other	7	8	1
Financial assets measured at fair value through profit or loss			
Derivative financial assets	67	67	—
Financial assets measured at fair value through other comprehensive income			
Equity securities	379	359	275
Total	23,697	22,833	21,787
Current assets	1,312	1,356	721
Non-current assets	22,385	21,476	21,065
Total	23,697	22,833	21,787

10. Inventories

The breakdown of inventories is as follows:

	IFRS Transition Date (March 1, 2016) (Millions of yen)	As of February 28, 2017 (Millions of yen)	As of February 28, 2018 (Millions of yen)
Merchandise and finished goods	3,289	3,428	3,150
Work in process	410	220	353
Real estate for sale in process	—	6,406	9,846
Raw materials and supplies	37	37	107
Total	3,738	10,092	13,458
Inventories scheduled to be sold after 12 months (Real estate for sale in process)	—	6,406	9,846

The amount of inventories recognized as expenses for the fiscal years ended February 28, 2017 and February 28, 2018 are 21,512 million yen and 22,108 million yen, respectively.

In addition, the amount of inventory write-downs recognized as expenses for the fiscal years ended February 28, 2017 and February 28, 2018 are 137 million yen and 153 million yen, respectively.

11. Other Current Assets and Other Non-current Assets

The breakdown of other current assets and other non-current assets is as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Other current assets			
Prepaid expenses	1,074	1,154	1,218
Other	581	583	544
Total	1,656	1,738	1,762
Other non-current assets			
Long-term prepaid expenses	2,352	2,221	2,116
Other	647	617	750
Total	3,000	2,838	2,867

12. Property, Plant and Equipment

(1) Schedule of changes

Costs, accumulated depreciation and accumulated impairment losses, and the carrying amounts of property, plant and equipment are as follows:

Costs

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2016	67,395	111,128	857	6,723	6,229
Acquisitions	7,209	6,259	36	1,127	3,513
Sales or disposals	(5,436)	(9,728)	(35)	(1,049)	—
Reclassification (Note) 3	(36,918)	3,841	(3)	59	32,279
Other	—	0	—	(0)	—
Balance as of February 28, 2017	32,250	111,500	855	6,860	42,023
Acquisitions	—	7,291	5	517	4,686
Sales or disposals	—	(1,255)	(1)	(464)	—
Reclassification	—	568	—	1	(615)
Other	—	1	—	0	—
Balance as of February 28, 2018	32,250	118,107	858	6,914	46,094

	Land in trust	Buildings and structures in trust	Machinery, equipment and vehicles in trust	Tools, furniture and fixtures in trust	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2016	42,297	21,969	171	193	256,966
Acquisitions	—	71	—	0	18,217
Sales or disposals	—	(0)	—	—	(16,250)
Reclassification (Note) 3	—	—	—	—	(742)
Other	—	—	—	—	0
Balance as of February 28, 2017	42,297	22,040	171	193	258,192
Acquisitions	—	30	6	—	12,536
Sales or disposals	—	(3)	—	—	(1,725)
Reclassification	—	—	—	—	(45)
Other	—	—	—	—	2
Balance as of February 28, 2018	42,297	22,067	177	193	268,960

Accumulated depreciation and accumulated impairment losses

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2016	(1,075)	(70,536)	(706)	(4,988)	—
Depreciation expense	—	(3,074)	(32)	(519)	—
Impairment loss	(124)	(249)	(0)	(52)	—
Sales or disposals	1,057	7,402	33	984	—
Reclassification (Note) 3	—	110	0	—	—
Other	—	0	—	0	—
Balance as of February 28, 2017	(143)	(66,347)	(704)	(4,575)	—
Depreciation expense	—	(3,297)	(35)	(575)	—
Impairment loss	(38)	(351)	(0)	(60)	—
Sales or disposals	—	1,134	1	423	—
Reclassification	—	—	—	—	—
Other	—	(0)	—	(0)	—
Balance as of February 28, 2018	(182)	(68,862)	(739)	(4,788)	—

	Land in trust	Buildings and structures in trust	Machinery, equipment and vehicles in trust	Tools, furniture and fixtures in trust	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2016	—	(5,407)	(31)	(124)	(82,870)
Depreciation expense	—	(978)	(16)	(20)	(4,642)
Impairment loss	—	—	—	—	(426)
Sales or disposals	—	0	—	—	9,479
Reclassification (Note) 3	—	—	—	—	110
Other	—	—	—	—	0
Balance as of February 28, 2017	—	(6,384)	(47)	(145)	(78,349)
Depreciation expense	—	(982)	(16)	(20)	(4,927)
Impairment loss	—	—	—	—	(451)
Sales or disposals	—	1	—	—	1,560
Reclassification	—	—	—	—	—
Other	—	—	—	—	(0)
Balance as of February 28, 2018	—	(7,365)	(64)	(166)	(82,168)

Carrying amounts

	Land	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2016	66,319	40,591	151	1,735	6,229
Balance as of February 28, 2017	32,106	45,153	150	2,284	42,023
Balance as of February 28, 2018	32,067	49,244	119	2,125	46,094

	Land in trust	Buildings and structures in trust	Machinery, equipment and vehicles in trust	Tools, furniture and fixtures in trust	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2016	42,297	16,562	139	68	174,096
Balance as of February 28, 2017	42,297	15,655	123	48	179,843
Balance as of February 28, 2018	42,297	14,701	113	27	186,791

(Notes) 1. The amount of depreciation expense of property, plant and equipment is included in "operating cost" and "selling, general and administrative expenses" in the consolidated statements of income.
2. Please refer to "29. Other Income and Expenses" for gain on sales of property, plant and equipment and loss on retirement of property, plant and equipment for the fiscal years ended February 28, 2017 and February 28, 2018.
3. Reclassification includes a transfer from land and buildings, etc., to construction in progress, in line with the Shibuya PARCO redevelopment project.

(2) Leased assets

Carrying amounts of leased assets under finance leases included in property, plant and equipment are as follows:

	Buildings and structures	Tools, furniture and fixtures	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2016	—	452	452
Balance as of February 28, 2017	279	737	1,017
Balance as of February 28, 2018	3,477	637	4,114

(3) Assets pledged as collateral

Not applicable.

(4) Commitments

Please refer to "38. Commitments" for commitments related to acquisition of property, plant and equipment.

(5) Property, plant and equipment under construction

Amounts paid recognized and included in the carrying amounts of property, plant and equipment items are presented under construction in progress in "(1) Schedule of changes" above.

(6) Borrowing costs

Borrowing costs capitalized as assets as components of the costs of qualifying assets for the fiscal years ended February 28, 2017 and February 28, 2018 are 22 million yen and 115 million yen, respectively.

Furthermore, the capitalization rates applied to these cases for the fiscal years ended February 28, 2017 and February 28, 2018 are 0.71% and 0.55%, respectively.

13. Intangible Assets

(1) Schedule of changes

Costs, accumulated amortization and accumulated impairment losses, and the carrying amounts of goodwill and intangible assets are as follows:

Costs

	Goodwill	Software	Other	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2016	53	1,931	418	2,402
Acquisitions	—	786	164	951
Sales or disposals	—	(114)	—	(114)
Reclassification	—	488	(525)	(37)
Balance as of February 28, 2017	53	3,091	56	3,202
Acquisitions	—	476	15	492
Sales or disposals	—	(134)	—	(134)
Reclassification	—	1	(1)	(0)
Balance as of February 28, 2018	53	3,435	70	3,559

Accumulated amortization and accumulated impairment losses

	Goodwill	Software	Other	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2016	(8)	(1,179)	(2)	(1,191)
Amortization expense	—	(446)	—	(446)
Impairment loss	(34)	(14)	—	(48)
Sales or disposals	—	109	—	109
Other	—	—	(54)	(54)
Balance as of February 28, 2017	(43)	(1,531)	(56)	(1,631)
Amortization expense	—	(512)	—	(512)
Impairment loss	(10)	(29)	—	(39)
Sales or disposals	—	118	—	118
Other	—	—	—	—
Balance as of February 28, 2018	(53)	(1,954)	(56)	(2,064)

Carrying amounts

	Goodwill	Software	Other	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2016	44	751	415	1,211
Balance as of February 28, 2017	10	1,560	—	1,570
Balance as of February 28, 2018	—	1,480	13	1,494

(Note) The amount of amortization expense of intangible assets is included in "operating cost" and "selling, general and administrative expenses" in the consolidated statements of income.

14. Investment Property

(1) Schedule of changes

Costs, accumulated depreciation and accumulated impairment losses, and the carrying amounts and fair values of investment properties are as follows:

Costs

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Balance at beginning of period	7,302	7,516
Acquisitions	241	2,457
Sales or disposals	(1)	(357)
Reclassification	(26)	(265)
Balance at end of period	7,516	9,351

Accumulated depreciation and accumulated impairment losses

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Balance at beginning of period	(463)	(995)
Depreciation expense	(209)	(217)
Impairment loss	(323)	—
Sales or disposals	0	355
Balance at end of period	(995)	(857)

Carrying amounts and fair values

	IFRS Transition Date (March 1, 2016)		As of February 28, 2017		As of February 28, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Investment property	6,839	14,211	6,521	14,322	8,493	16,508

Appraisals by real estate appraisers, etc., are used for the fair values at the end of each fiscal year. These appraisals are calculated using the income approach, based on expected rental from each property and other input data.

As unobservable inputs are included, the measurement of investment property is categorized within Level 3 of the fair value hierarchy.

(2) Income and expenses from investment property

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Rental income	2,623	2,818
Direct operating expenses	1,441	1,585

The amounts of rental income from investment property and accompanying direct operating expenses are included in "operating revenue" and "operating cost," respectively, in the consolidated statements of income.

In addition, direct operating expenses from investment property that did not generate rental income for the fiscal years ended February 28, 2017 and February 28, 2018 are 15 million yen and 4 million yen, respectively, and are included in "operating cost" in the consolidated statements of income.

(3) Commitments

Please refer to "38. Commitments" for commitments related to purchase of investment property.

15. Impairment of Non-financial Assets

(1) Cash-generating units

The Group determines cash-generating units taking into consideration management accounting classifications. For idle land, each property is considered as a cash-generating unit.

(2) Impairment loss

Impairment loss is recorded in "other expense" in the consolidated statements of income.

The breakdown of impairment loss by class of assets is as follows:

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Shopping Complex Business		
Property, plant and equipment	232	197
Intangible assets	—	29
Investment property	323	—
Other non-current assets	4	5
Total Shopping Complex Business	560	232
Retail Business, Space Engineering and Management Business, and Other Business		
Property, plant and equipment	193	254
Intangible assets	48	10
Total Retail Business, Space Engineering and Management Business, and Other Business	241	264
Total	802	497

The details of impairment loss recorded during the fiscal year ended February 28, 2017 are as follows:

1) Shopping Complex Business

In regard to Chiba PARCO, the Group reduced the carrying amount of the cash-generating unit to the recoverable amount and recognized the amount of the reduction as an impairment loss (89 million yen; breakdown: land, 89 million yen) because the recoverable amount fell below the carrying amount, in line with the decision to transfer non-current assets in October 2016.

In regard to certain land in Shibuya PARCO, the Group reduced the carrying amount of the property to the recoverable amount and recognized the amount of the reduction as an impairment loss (5 million yen; breakdown: land, 5 million yen) because the recoverable amount fell below the carrying amount, in line with the decision to transfer in August 2016.

Furthermore, the recoverable amounts of Chiba PARCO and Shibuya PARCO are based on fair value less costs of disposal. The fair value less costs of disposal is based on the sales value, and the fair value measurement is categorized within Level 3 of the fair value hierarchy.

In regard to Sannomiya ZERO GATE, the Group reduced the carrying amount of the cash-generating unit to the recoverable amount and recognized the amount of the reduction as an impairment loss (323 million yen; breakdown: buildings, etc., 323 million yen) because the recoverable amount fell below the carrying amount, in line with the decision on reconstruction.

Furthermore, the recoverable amount of Sannomiya ZERO GATE is based on value in use, and the carrying amount of buildings, etc., was reduced to zero owing to the decision on reconstruction.

In regard to Utsunomiya PARCO, the Group reduced the carrying amount of the cash-generating unit to the recoverable amount and recognized the amount of the reduction as an impairment loss (141 million yen; breakdown: land, etc., 33 million yen; building, etc., 108 million yen) because the recovery of the investment amount cannot be expected owing to a decline in profitability.

Furthermore, the recoverable amount of Utsunomiya PARCO is based on fair value less costs of disposal. The fair value less costs of disposal is based on the appraisal value by real estate appraisers (income approach, etc.), and the fair value measurement is categorized within Level 3 of the fair value hierarchy.

2) Retail Business, Space Engineering and Management Business, and Other Business

In regard to the Retail Business, Space Engineering and Management Business, and Other Business, the Group reduced the carrying amount of the cash-generating units to the recoverable amount and recognized the amount of the reduction as an impairment loss (241 million yen; breakdown: buildings, etc., 181 million yen; leased assets, 12 million yen; software, 14 million yen; goodwill, 34 million yen) because of stores, etc., that the Group had decided to close and because operating activities have generated a loss on an ongoing basis, and thus the profitability of these cash-generating units has declined and recovery of the investment amount cannot be anticipated.

Furthermore, the recoverable amount of each of these cash-generating units is based on value in use, and the carrying amount of each asset was reduced to zero, as the value in use based on future cash flows was negative.

The details of impairment losses recorded during the fiscal year ended February 28, 2018 are as follows:

1) Shopping Complex Business

In regard to Utsunomiya PARCO, the Group reduced the carrying amount of the cash-generating unit to the recoverable amount and recognized the amount of the reduction as an impairment loss (143 million yen; breakdown: land, etc., 44 million yen; building, etc., 98 million yen) because operating activities were expected to generate a loss on an ongoing basis.

Furthermore, the recoverable amount of Utsunomiya PARCO is based on fair value less costs of disposal. The fair value less costs of disposal is based on the appraisal value by real estate appraisers (income approach, etc.), and the fair value measurement is categorized within Level 3 of the fair value hierarchy.

2) Retail Business, Space Engineering and Management Business, and Other Business
In regard to the Retail Business, Space Engineering and Management Business, and Other Business, the Group reduced the carrying amount of the cash-generating units to the recoverable amount and recognized the amount of the reduction as an impairment loss (264 million yen; breakdown: buildings, etc., 254 million yen; goodwill, 10 million yen) because operating activities have generated a loss on an ongoing basis, and thus the profitability of these cash-generating units has declined and recovery of the investment amount cannot be anticipated.

Furthermore, the recoverable amount of each of these cash-generating units is based on value in use, and the carrying amount of each asset was reduced to the value in use, calculated by discounting future cash flows at 4%.

16. Investments Accounted for Using Equity Method

Investments in associates are accounted for using the equity method. In addition, there are no individually material associates.

The carrying amount of investments in individually immaterial associates is as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Total carrying amount	385	50	21

The Group's share of comprehensive income of the individually insignificant associates is as follows:

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Share of profit	(339)	(29)
Share of other comprehensive income	—	—
Share of comprehensive income	(339)	(29)

17. Income Taxes

(1) Deferred tax assets and liabilities

The breakdown of and changes in deferred tax assets and deferred tax liabilities by major cause are as follows:

Fiscal year ended February 28, 2017

	Balance as of March 1, 2016	Recognized in profit or loss	Recognized in other comprehensive income	Balance as of February 28, 2017
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Deferred tax assets				
Prepaid expenses (leasehold right)	3,089	(151)	—	2,938
Accrued sales promotion expenses	151	(11)	—	140
Retirement benefits	841	(53)	(93)	694
Non-current assets	1,061	(534)	—	527
Provision for loss on store closing	343	(15)	—	328
Accrued employees' bonuses	347	15	—	363
Long-term deferred revenue	—	2,116	—	2,116
Loss on valuation of shares of subsidiaries and associates	292	(8)	(33)	250
Accrued paid leave	142	26	—	169
Accrued property taxes	477	(11)	—	465
Asset retirement obligations	164	(19)	—	145
Accrued enterprise tax	203	(80)	—	122
Other	1,301	(429)	(20)	851
Total	8,419	842	(147)	9,114
Deferred tax liabilities				
Non-current assets	3,536	2,530	—	6,067
Other	63	16	9	89
Total	3,600	2,547	9	6,156

Fiscal year ended February 28, 2018

	Balance as of March 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Balance as of February 28, 2018
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Deferred tax assets				
Prepaid expenses (leasehold right)	2,938	11	—	2,949
Accrued sales promotion expenses	140	(15)	—	125
Retirement benefits	694	(24)	(81)	588
Non-current assets	527	60	—	587
Provision for loss on store closing	328	(328)	—	—
Accrued employees' bonuses	363	(14)	—	348
Long-term deferred revenue	2,116	(603)	—	1,513
Loss on valuation of shares of subsidiaries and associates	250	—	15	266
Accrued paid leave	169	0	—	169
Accrued property taxes	465	10	—	476
Asset retirement obligations	145	8	—	153
Accrued enterprise tax	122	25	—	147
Other	851	(157)	9	703
Total	9,114	(1,028)	(55)	8,030
Deferred tax liabilities				
Non-current assets	6,067	(5)	—	6,061
Other	89	11	11	112
Total	6,156	6	11	6,174

When recognizing deferred tax assets, the Group considers the possibility that unused tax losses or deductible temporary differences can be utilized against future taxable profit. With respect to the recoverability of deferred tax assets, scheduled reversal of deferred tax liabilities, expected future taxable profit and tax planning are taken into account.

As a result of the above assessment of the recoverability of deferred tax assets, the Group has not recognized deferred tax assets for certain unused tax losses and deductible temporary differences. The amounts of unused tax losses and deductible temporary differences for which deferred tax assets have not been recognized are as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Unused tax losses	1,508	1,458	1,595
Deductible temporary differences	216	69	49
Total	1,725	1,528	1,645

The expiry of unused tax losses for which deferred tax assets have not been recognized is as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	(Millions of yen)	(Millions of yen)	(Millions of yen)
1st year	—	2	0
2nd year	2	0	—
3rd year	32	—	—
4th year	7	—	—
5th year and after	1,466	1,456	1,595
Total	1,508	1,458	1,595

As of the IFRS transition date (March 1, 2016), February 28, 2017 and February 28, 2018, the total amounts of temporary differences associated with investments in subsidiaries that are not recognized as deferred tax liabilities are 2,303 million yen, 2,457 million yen and 2,738 million yen, respectively.

(2) Income tax expense

The breakdown of income tax expense is as follows:

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Current tax expense:		
Current period	3,267	2,643
Prior periods	(79)	(24)
Total current tax expense	3,187	2,618
Deferred tax expense:		
Origination and reversal of temporary differences, etc.	1,624	1,011
Changes in unrecognized deferred tax assets	(33)	27
Changes in tax rates, etc.	114	(4)
Total deferred tax expense	1,704	1,034
Total tax expense related to comprehensive income	(18)	(6)
Total	4,873	3,646

(3) Reconciliation of effective tax rates

Factors for differences between the effective statutory tax rate and average effective tax rate are as follows:

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	%	%
Effective statutory tax rate	33.1	30.9
Expense not deductible in determining taxable profit	0.4	0.5
Revenue not taxable in determining taxable profit	0.0	0.0
Unrecognized deferred tax assets	(0.2)	0.2
Share of loss of entities accounted for using equity method	0.8	0.1
Adjustments to deferred tax assets owing to changes in tax rates	0.8	0.0
Deduction of unrealized profit	1.1	0.0
Other, net	(0.4)	0.1
Average effective tax rate	35.7	31.8

The Group is mainly subject to corporation tax, inhabitants' tax, and enterprise tax, and the effective statutory tax rates based on these for the fiscal year ended February 28, 2017 and the fiscal year ended February 28, 2018 are 33.1% and 30.9%, respectively.

On March 29, 2016, the "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act for Partial Amendment, etc., of the Local Tax Act, etc." (Act No. 13 of 2016) were enacted in the Diet, and the corporation tax rate, etc., were changed for fiscal years starting on or after April 1, 2016. As a result, in regard to temporary differences, etc., expected to be reversed in the fiscal year starting March 1, 2017, the effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities changed from 32.3% to 30.9%, and in regard to temporary differences, etc., expected to be reversed in the fiscal year starting March 1, 2019 or later, the effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities changed to 30.6%.

18. Bonds and Borrowings, and Other Financial Liabilities

(1) Breakdown of financial liabilities

The breakdown of bonds and borrowings, and other financial liabilities is as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018	Average interest rate (Note)	Repayment deadline
	(Millions of yen)	(Millions of yen)	(Millions of yen)	%	
Current borrowings	—	—	1,000	0.20	—
Commercial paper	11,399	2,099	—	—	—
Current portion of non-current borrowings	7,900	18,180	7,580	0.81	—
Non-current borrowings	35,265	37,882	44,240	0.51	From March 2019 to February 2025
Current lease obligations	224	234	386	—	—
Non-current lease obligations	339	1,049	6,265	—	From March 2019 to October 2037
Current portion of guarantee deposits received	1,367	1,782	821	—	—
Guarantee deposits received	30,250	27,105	27,181	—	—
Other	104	39	4	—	—
Total	86,852	88,372	87,480		
Current liabilities	20,996	22,336	9,792		
Non-current liabilities	65,856	66,036	77,687		
Total	86,852	88,372	87,480		

(Note) The average interest rate represents the weighted average interest rate applicable to the borrowings, etc., that are outstanding at the end of the period.

There are no financial covenants attached to the bonds and borrowings that will significantly affect the Group's financial activities.

(2) Assets pledged as collateral

Not applicable.

19. Leases

(1) As lessee

1) Finance Leases

The Group rents real estate for commercial use, etc., as the lessee under finance leases.

The total of future minimum lease payments under finance lease arrangements and their present value are as follows. Furthermore, future finance costs are the difference between minimum lease payments for real estate lease transactions and present values.

	Minimum lease payments			Present value of minimum lease payments		
	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Due within one year	224	358	815	224	234	386
Due after one year through five years	326	1,071	2,819	326	575	1,203
Due after five years	13	1,820	8,453	13	473	5,062
Total	563	3,250	12,088	563	1,283	6,652
Future finance costs	—	1,967	5,435			
Present value of minimum lease payments	563	1,283	6,652			

Future minimum sublease payments expected to be received under non-cancellable subleases as of February 28, 2018 were 2,799 million yen. Furthermore, there were no applicable sublease payments as of the IFRS transition date (March 1, 2016) and February 28, 2017.

There are no contingent rents, renewal or purchase options, escalation clauses (clauses specifying a raise in the lease contract amount) or restrictions imposed by lease arrangements (such as restrictions concerning dividends, additional debt and further leasing) on lease arrangements.

2) Operating Leases

The Group rents real estate for commercial use, etc., as the lessee under operating leases.

Future minimum lease payments under non-cancellable operating leases are as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Due within one year	2,101	2,496	**3,029**
Due after one year through five years	4,102	4,978	**6,223**
Due after five years	5,288	5,165	**8,095**
Total	11,492	12,640	**17,349**

Minimum lease payments and contingent rents under operating lease arrangements recognized as an expense are as follows:

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Minimum lease payments	12,902	**11,324**
Contingent rents	687	**686**
Total	13,589	**12,010**

Future minimum sublease payments expected to be received under non-cancellable subleases as of the IFRS transition date (March 1, 2016), February 28, 2017 and February 28, 2018 were 3,945 million yen, 3,886 million yen and 2,814 million yen, respectively.

Sublease payments recognized as income under cancellable or non-cancellable operating leases for the fiscal years ended February 28, 2017 and February 28, 2018 were 10,636 million yen and 9,582 million yen, respectively.

Some lease arrangements contain renewal options. In addition, there are no purchase options, escalation clauses (clauses specifying a raise in the lease contract amount) or restrictions imposed by lease arrangements (such as restrictions concerning dividends, additional debt and further leasing).

(2) As lessor

The Group leases real estate for commercial use, etc., as the lessor under finance leases and operating leases.

1) Finance leases

The gross investment in the leases under finance leases and the present value of future minimum lease payments receivable are as follows:

	Gross investment in leases			Present value of minimum lease payments receivable		
	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Due within one year	—	—	**905**	—	—	**905**
Due after one year through five years	—	—	**108**	—	—	**108**
Due after five years	—	—	**52**	—	—	**52**
Total	—	—	**1,066**	—	—	**1,066**
Deferred finance income	—	—	**—**			
Net investment in leases	—	—	**1,066**			
Unguaranteed residual values	—	—	**—**			
Present value of minimum lease payments receivable	—	—	**1,066**			

There are no accumulated provisions for uncollectible minimum lease payments receivable as of the IFRS transition date, February 28, 2017, and February 28, 2018, or contingent rents recognized as income during the period.

2) Operating Leases

Future minimum lease payments receivable under non-cancellable operating leases are as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Due within one year	2,889	3,219	**3,656**
Due after one year through five years	7,279	6,005	**5,422**
Due after five years	453	92	**569**
Total	10,622	9,318	**9,647**

Total contingent rents recognized as income for the fiscal years ended February 28, 2017 and February 28, 2018 were 27,515 million yen and 25,968 million yen, respectively.

20. Trade and Other Payables

The breakdown of trade and other payables is as follows.

Both are classified as financial liabilities measured at amortized cost.

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Electronically recorded obligations - operating	1,285	1,242	2,186
Operating accounts payable	15,026	13,332	13,177
Accounts payable for construction contracts	946	1,307	991
Accounts payable - other	4,566	4,173	5,623
Accounts payable - facilities	1,492	1,255	1,801
Total	23,317	21,310	23,780

21. Employee Benefits

As retirement benefit plans for employees, the Group has defined benefit plans (corporate pension fund plan, lump-sum retirement plan, and prepaid retirement plan) and defined contribution plans. In addition, the Group may pay extra retirement payments when employees retire before their normal retirement date.

In regard to the corporate pension fund plan, the Group has obligations including paying contributions to the corporate pension fund under the Defined-Benefit Corporate Pension Act, etc. Directors of the fund have responsibilities including a duty of loyalty to comply with dispositions made by the Minister of Health, Labour and Welfare and Heads of Regional Bureaus of Health and Welfare in accordance with laws and regulations, and the rules of the corporate pension fund and resolutions of the Board of Representatives, and faithfully execute operations related to managing and operating funds in the interests of the fund. In addition, it is stipulated that Directors are forbidden from entering into any asset management contract aimed at serving the interests of a third party, and rules of conduct are clarified that include forbidding acts that create a conflict of interest.

The plan is operated by a corporate pension fund that is independent from the Group. The Board of Representatives comprises the same number of Representatives elected by the employer (Elected Representatives) and Representatives elected by employees (Mutually Elected Representatives), and the Chairperson (President) of the Board of Representatives is elected by the employer.

Decisions of the Board of Representatives are made by a majority of members in attendance, but in cases of a tie, the President, who is the Chairperson, has the authority to make a decision. However, it is stipulated that decisions related to particularly important matters shall be determined by a majority in excess of the above.

The Board of Representatives holds the authority to make decisions about all important matters, such as investment policies. Actual asset management is conducted by a contract management institution under an investment service agreement, and directions from the Board of Representatives regarding investment in individual securities, etc., are forbidden by laws and regulations.

The Group is required to pay contributions to the corporate pension fund, contributions are regularly reviewed within the range permitted by laws and regulations, and the Group will be obliged to pay contributions determined by the corporate pension fund into the future.

In regard to the lump-sum retirement plan and prepaid retirement plan, the Group is obliged to make payments directly to recipients. There are no statutory requirements regarding funding.

(1) Defined benefit plans

The relationship between defined benefit obligations and plan assets and the amounts recognized in the consolidated statement of financial position is as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Defined benefit obligations (with plan assets)	5,616	5,511	5,408
Fair value of plan assets	(3,489)	(3,748)	(4,008)
Subtotal	2,126	1,763	1,400
Defined benefit obligations (no plan assets)	341	367	392
Liabilities of defined benefit plans	2,468	2,130	1,792
Net defined benefit liability (asset) in the consolidated statement of financial position	2,468	2,130	1,792

Changes in the present value of the defined benefit obligations are as follows:

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Balance at beginning of period	5,958	5,878
Service cost	322	309
Interest cost	18	20
Remeasurements		
Actuarial gains and losses arising from changes in demographic assumptions	—	—
Actuarial gains and losses arising from changes in financial assumptions	(135)	(81)
Benefits paid	(284)	(325)
Balance at end of period	5,878	5,800

Changes in the fair value of the plan assets are as follows:

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Balance at beginning of period	3,489	3,748
Interest income	10	12
Remeasurements		
Return on plan assets	147	184
Contributions by employer	372	365
Benefits paid	(272)	(303)
Balance at end of period	3,748	4,008

The fair value of each item of plan assets is as follows:

	IFRS Transition Date (March 1, 2016)			As of February 28, 2017			As of February 28, 2018		
Items of plan assets	Assets with quoted market prices in active markets	Assets without quoted market prices in active markets	Total	Assets with quoted market prices in active markets	Assets without quoted market prices in active markets	Total	Assets with quoted market prices in active markets	Assets without quoted market prices in active markets	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Cash and cash equivalents	42	—	42	83	—	83	69	—	69
Jointly managed trusts (equity securities)	—	616	616	—	894	894	—	1,036	1,036
Jointly managed trusts (public and corporate bonds)	—	1,711	1,711	—	1,526	1,526	—	1,610	1,610
Life insurance general accounts	—	506	506	—	530	530	—	547	547
Other	—	612	612	—	712	712	—	743	743
Total	42	3,447	3,489	83	3,664	3,748	69	3,938	4,008

The Group's management of plan assets is aimed at ensuring the necessary income over the long term to reliably make pension and lump-sum payments into the future. With that objective, the investment policy is based on diversified investment in multiple investment targets with different risk and return characteristics, within the range of acceptable risk, taking into consideration the characteristics of liabilities of the corporate pension fund into the future and the circumstances of the Group.

Specifically, management is conducted by the contract management institution, maintaining an asset allocation over the long term based on a strategic asset composition ratio formulated based on the optimal combination into the future, projecting expected rates of return on investment assets and taking into consideration correlation with standard deviation.

In regard to plan assets, the status of asset management is managed by regularly confirming the financial position of the plans, formulating long-term management policies, monitoring the status of asset allocation, etc.

The Group's pension funding takes into consideration various factors, including the funded status of plan assets and actuarial calculations. Contributions to plan assets are intended to cover benefits for service already rendered, in addition to benefits for service to be rendered in future.

In accordance with the provisions of the Defined-Benefit Corporate Pension Act, the rules of the corporate pension fund stipulate that the amount of contributions shall be recalculated, mostly every three years, with a record date of the fiscal year-end, in order to preserve financial equilibrium into the future. In the recalculation, the basic rates related to contributions (expected interest rates, expected mortality rates, expected withdrawal rates, expected salary increase indexes, expected number of new participants, etc.) are reviewed, and the appropriateness of the contributions is reverified.

The Group plans to pay contributions of 365 million yen in the fiscal year ending February 28, 2019.

The weighted average duration of the defined benefit obligations as of the IFRS transition date (March 1, 2016), February 28, 2017, and February 28, 2018 was 11 years in each case.

The main actuarial assumptions used to calculate the present value of the defined benefit obligations are as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	%	%	%
Discount rate	Mainly 0.3	Mainly 0.3	**Mainly 0.3**
Anticipated rate of salary increase	Mainly 7.8	Mainly 7.8	**Mainly 7.8**

Sensitivity analyses are conducted based on changes in assumptions that are reasonably possible, as of the end of the fiscal year.

The sensitivity analysis is based on the premise that all actuarial assumptions remain constant other than the actuarial assumption that is the focus of the analysis, but in reality, there is a possibility that changes in other actuarial assumptions may affect the sensitivity analysis.

If there are no changes to other assumptions, the sensitivity of defined benefit obligations at the end of each fiscal year to changes in the discount rate is as follows. Furthermore, the Group does not expect any changes in the anticipated rate of salary increase.

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Changes in discount rate			
0.1% increase	(69)	(66)	**(63)**
0.1% decrease	70	67	**65**

Amounts recognized as retirement benefit expenses are as follows:

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Service cost	322	**309**
Net interest	8	**7**
Other, net	141	**197**
Total	472	**514**

(2) Defined contribution plans

The Group adopted defined contribution plans from the fiscal year ended February 28, 2018. The amount recognized as expenses in association with defined contribution plans for the fiscal year ended February 28, 2018 is 52 million yen.

(3) Employee benefit expenses

Total employee benefit expenses included in "operating cost" and "selling, general and administrative expenses" in the consolidated statements of income for the fiscal years ended February 28, 2017 and February 28, 2018 were 15,271 million yen and 14,637 million yen, respectively.

22. Provisions

The breakdown and changes of provisions are as follows:

	Asset retirement obligations	Provision for loss on store closing	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2017	**481**	**1,037**	**1,518**
Increase during the period	**50**	**—**	**50**
Period interest expenses for the discount calculation	**4**	**—**	**4**
Decrease during the period (use)	**(25)**	**(604)**	**(630)**
Decrease during the period (reversal)	**—**	**(432)**	**(432)**
Other	**0**	**—**	**0**
Balance as of February 28, 2018	**510**	**—**	**510**

(Note) The decrease during the period (reversal) for provision for loss on store closing is the amount reversed without being used during the fiscal year, as the amount expected was larger than the actual amount.

The breakdown of provisions in the consolidated statements of financial position is as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Current liabilities	492	1,044	7
Non-current liabilities	1,069	474	503
Total	1,562	1,518	510

(1) Asset retirement obligations

Asset retirement obligations are recorded at the estimated amount of restoration costs for rented stores, offices, etc., for which the Group has obligations to restore them to the original state at the time when the lease arrangement is terminated and costs for removing harmful substances related to non-current assets. These costs are mainly expected to be paid after 5 to 34 years, and will be affected by future business plans, etc.

(2) Provision for loss on store closing

In regard to stores that will close, the Group records a reasonably estimated amount to provide for losses expected to occur. These costs are mainly expected to be paid within one year of the stores closing, and will be affected by the progress of negotiations with trade partners, etc.

23. Other Current Liabilities and Other Non-current Liabilities

The breakdown of other current liabilities and other non-current liabilities is as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Other current liabilities			
Accrued expenses	1,612	1,539	1,498
Accrued bonuses	1,067	1,114	1,035
Advances received	739	2,168	11,173
Other	1,774	3,833	3,750
Total	5,194	8,654	17,457
Other non-current liabilities			
Deferred revenue	—	4,894	2,988
Other	29	32	38
Total	29	4,926	3,026

24. Equity and Other Equity Items

(1) Share capital and share premium

Changes in the number of authorized shares, number of issued shares, and the balance of share capital, etc., are as follows:

	Number of authorized shares	Number of issued shares	Share capital	Share premium
	(Shares)	(Shares)	(Millions of yen)	(Millions of yen)
IFRS transition date (March 1, 2016)	320,000,000	101,462,977	34,367	35,129
Changes during the period	—	—	—	(0)
As of February 28, 2017	320,000,000	101,462,977	34,367	35,129
Changes during the period	—	—	—	—
As of February 28, 2018	320,000,000	101,462,977	34,367	35,129

(Note) All shares issued by the Company are common shares with no restrictions and no par value. Issued shares are fully paid.

(2) Treasury shares

Changes in the number and balance of treasury shares are as follows:

	Number of shares	Amount
	(Shares)	(Millions of yen)
IFRS transition date (March 1, 2016)	4,200	(3)
Changes during the period	391	(0)
As of February 28, 2017	4,591	(4)
Changes during the period	778	(1)
As of February 28, 2018	5,369	(5)

(Note) Changes during the period are mainly due to purchase of shares less than one unit or demands for sale.

(3) Share premium

Share premium comprises legal share premium and other share premium. Under the Companies Act of Japan (hereinafter referred to as the "Companies Act"), at least 50% of the contribution for share issue shall be credited to share capital, and the remainder shall be credited to legal share premium included in share premium. In addition, under the Companies Act, legal share premium can be transferred to share capital by resolution of the shareholders meeting.

(4) Retained earnings

Retained earnings comprise legal retained earnings and other retained earnings. Under the Companies Act, 10% of the amount paid as dividends from surplus shall be accumulated as legal share premium (an item of share premium) or legal retained earnings (an item of retained earnings), until the total amount of legal share premium and legal retained earnings reaches 25% of share capital. The legal retained earnings may be used to eliminate or reduce a deficit, or may also be reversed by resolution of the shareholders meeting.

(5) Other components of equity

1) Exchange differences on translation of foreign operations
   Exchange differences on translation of foreign operations represent the translation difference in consolidating a foreign operation whose financial statements are denominated in a foreign currency.
2) Cash flow hedges
   The Group uses derivatives to hedge the risk of fluctuations in future cash flows. Cash flow hedges represent the effective portion of changes in fair value of derivative transactions designated as cash flow hedges.
3) Financial assets measured at fair value through other comprehensive income
   Financial assets measured at fair value through other comprehensive income represent the changes in fair value of financial assets measured at fair value through other comprehensive income, etc.
4) Remeasurements of defined benefit plans
   Remeasurements of defined benefit plans represent actuarial differences on defined benefit obligations and the return on plan assets (excluding the amount included in interest income).

25. Dividends

(1) Dividends paid

Fiscal year ended February 28, 2017

Resolution	Class of shares	Total amount of dividends	Amount of dividends per share	Reference date	Effective date
		(Millions of yen)	(Yen)		
Meeting of the Board of Directors held on April 6, 2016	Common shares	1,014	10.00	February 29, 2016	May 9, 2016
Meeting of the Board of Directors held on October 3, 2016	Common shares	1,116	11.00	August 31, 2016	October 24, 2016

Fiscal year ended February 28, 2018

Resolution	Class of shares	Total amount of dividends	Amount of dividends per share	Reference date	Effective date
		(Millions of yen)	(Yen)		
Meeting of the Board of Directors held on April 6, 2017	Common shares	1,217	12.00	February 28, 2017	May 8, 2017
Meeting of the Board of Directors held on October 6, 2017	Common shares	1,116	11.00	August 31, 2017	October 23, 2017

(2) Dividends whose effective date belongs to the following fiscal year

Fiscal year ended February 28, 2017

Resolution	Class of shares	Total amount of dividends	Amount of dividends per share	Reference date	Effective date
		(Millions of yen)	(Yen)		
Meeting of the Board of Directors held on April 6, 2017	Common shares	1,217	12.00	February 28, 2017	May 8, 2017

Fiscal year ended February 28, 2018

Resolution	Class of shares	Total amount of dividends	Amount of dividends per share	Reference date	Effective date
		(Millions of yen)	(Yen)		
Meeting of the Board of Directors held on April 9, 2018	Common shares	1,217	12.00	February 28, 2018	May 7, 2018

26. Operating Revenue

The breakdown of operating revenue is as follows:

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Revenue from tenants	52,964	50,491
Sales of goods	21,532	21,216
Construction contracts and services rendered	13,584	14,302
Other operating revenue	5,697	5,609
Total	93,780	91,621

(Notes) 1. Revenue from tenants and other operating revenue include revenue from services rendered.
2. Revenue from tenants includes revenue based on lease arrangements.

27. Operating Cost

The breakdown of operating cost is as follows:

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Cost of goods sold	12,021	11,815
Personnel expenses	7,174	6,605
Leasehold and office rents	8,675	8,531
Outsourcing expenses	11,277	12,514
Depreciation and amortization expense	4,448	4,802
Promotion expenses	4,942	4,768
Utilities expenses	3,764	3,573
Taxes and dues	1,203	1,305
Other	8,968	8,439
Total	62,477	62,357

28. Selling, General and Administrative Expenses

The breakdown of selling, general and administrative expenses is as follows:

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Personnel expenses	8,097	8,032
Leasehold and office rents	2,885	3,013
Outsourcing expenses	1,152	1,200
Depreciation and amortization expense	835	857
Promotion expenses	580	665
Taxes and dues	544	818
Other	4,408	4,391
Total	18,505	18,979

29. Other Income and Expenses

The breakdown of other income is as follows:

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Gain on sales of non-current assets	3,254	**0**
Compensation income	975	**1,951**
Other	737	**901**
Total	4,967	**2,853**

(Note) Compensation income is compensation for the Shibuya PARCO redevelopment project.

The breakdown of other expenses is as follows:

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Loss on closing of stores	1,041	**—**
Impairment loss	802	**497**
Loss on retirement of non-current assets	765	**665**
Other	952	**261**
Total	3,561	**1,425**

30. Finance Income and Finance Cost

The breakdown of finance income is as follows:

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Interest income		
Financial assets measured at amortized cost		
Deposits, etc.	31	**30**
Lease and guarantee deposits	135	**111**
Dividend income		
Financial assets measured at fair value through other comprehensive income	2	**2**
Total finance income	169	**144**

The breakdown of finance cost is as follows:

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Interest expenses		
Financial liabilities measured at amortized cost		
Borrowings, etc.	337	**181**
Guarantee deposits received	(51)	**(45)**
Lease obligations	72	**231**
Other	5	**4**
Total finance cost	364	**372**

Financial Section

31. Other Comprehensive Income

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income		
Additions during the period	173	9
Tax effect	(60)	(3)
Financial assets measured at fair value through other comprehensive income	112	6
Remeasurements of defined benefit plans		
Additions during the period	283	266
Tax effect	(93)	(81)
Remeasurements of defined benefit plans	190	184
Total amount of items that will not be reclassified to profit or loss	302	191
Items that might be reclassified to profit or loss		
Cash flow hedges		
Additions during the period	64	27
Reclassification adjustments	—	—
Amount before tax effect adjustments	64	27
Tax effect	(20)	9
Cash flow hedges	44	37
Exchange differences on translation of foreign operations		
Additions during the period	(18)	6
Reclassification adjustments	—	—
Amount before tax effect	(18)	6
Tax effect	—	—
Exchange differences on translation of foreign operations	(18)	6
Total amount of items that might be reclassified to profit or loss	26	44
Total other comprehensive income	328	235

32. Earnings per Share

Basis of calculating basic earnings per share is as follows:

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Profit attributable to owners of parent (Millions of yen)	8,795	7,809
Weighted average number of ordinary shares outstanding (Shares)	101,458,590	101,458,037
Basic earnings per share (Yen)	86.69	76.97

(Note) Information on diluted earnings per share is omitted due to an absence of potential shares.

33. Cash Flow Information

(1) Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities are as follows:

Fiscal year ended February 28, 2017

	Balance as of March 1, 2016	Changes involving cash flows	Changes not involving cash flows			Balance as of February 28, 2017
			Exchange differences on translation of foreign operations	Changes in fair values	Lease obligations	
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Non-current borrowings	43,165	12,900	(3)	—	—	56,062
Commercial paper	11,399	(9,299)	—	—	—	2,099
Lease obligations	563	(258)	—	—	977	1,283
Derivatives	(67)	—	—	0	—	(67)
Total	55,062	3,341	(3)	0	977	59,378

(Notes) 1. Derivatives are held in order to hedge non-current borrowings.
2. Non-current borrowings include current portion of non-current borrowings.

Fiscal year ended February 28, 2018

	Balance as of March 1, 2017	Changes involving cash flows	Changes not involving cash flows			Balance as of February 28, 2018
			Exchange differences on translation of foreign operations	Changes in fair values	Lease obligations	
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Current borrowings	—	1,000	—	—	—	1,000
Non-current borrowings	56,062	(4,240)	(1)	—	—	51,820
Commercial paper	2,099	(2,099)	—	—	—	—
Lease obligations	1,283	(282)	—	—	5,651	6,652
Derivatives	(67)	60	—	6	—	—
Total	59,378	(5,562)	(1)	6	5,651	59,472

(Notes) 1. Derivatives are held in order to hedge non-current borrowings.
2. Non-current borrowings include current portion of non-current borrowings.

(2) Non-cash transactions

Property, plant and equipment and investment property acquired through finance leases are as follows:

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Property, plant and equipment and investment property acquired through finance leases	791	4,983

34. Financial Instruments

(1) Capital management

In order to realize sustainable growth and the medium- to long-term enhancement of corporate value, the Group's capital management policy is to enhance capital efficiency, while maintaining financial soundness and maintaining a financial base tailored to future uncertain risks and ensuring strategic investment opportunities.

The main monitoring indicators for capital management are ROE and the D/E ratio. Furthermore, the Group is not subject to any material capital regulations.

(2) Financial risk management policy

In the process of engaging in management activities, the Group is exposed to financial risks (credit risk, liquidity risk, foreign currency risk, interest rate risk, and the risk of fluctuations in market prices), and engages in risk management to reduce these financial risks.

The Group uses derivative transactions to avoid foreign currency fluctuation risk or interest rate fluctuation risk and, in accordance with its policy, does not carry out any speculative transactions.

(3) Credit risk management

The Group is exposed to credit risk from trade receivables, etc., held. Credit risk is the risk that a trade partner will default on contractual obligations and cause the Group to incur a financial loss.

In regard to the risk, each Group company manages due dates and balances for each trade partner, and endeavors to promptly identify and reduce any concerns about collection.

The Group's receivables are from a number of trade partners in a wide range of industries and regions.

Furthermore, the Group does not have any credit risk overly concentrated in a single counterparty or a group to which the counterparty belongs.

1) Changes to allowance for doubtful accounts

The Group considers whether or not there has been a significant increase in credit risk from the date of initial recognition, and establishes an allowance for doubtful accounts. Specifically, if the credit risk has not increased significantly since initial recognition, allowance for doubtful accounts is measured at an amount equal to 12-month expected credit losses. On the other hand, if the credit risk has increased significantly since initial recognition, allowance for doubtful accounts is measured at an amount equal to lifetime expected credit losses. Whether credit risk has significantly increased or not is determined based on changes in default risk. Regardless of the above, for trade receivables, lease receivables, etc., without a significant financing component, allowance for doubtful accounts is measured at an amount equal to lifetime expected credit losses.

In addition, the Group deems receivables to be in default when 90 days or more have passed since the due date, and receivables are classed as credit-impaired financial assets when they are categorized as in default, or when proof of impairment exists, such as cases when the issuer or debtor is in serious financial difficulty, and allowance for doubtful accounts is measured at an amount equal to lifetime expected credit losses. Furthermore, if it is reasonably judged that all or part of a financial asset is uncollectible, such as cases when the receivables are legally extinguished, then the Group writes off the total carrying amount of the financial asset.

When measuring these expected credit losses, the Group uses reasonable and supportable information that is available as of the end of the fiscal year for historical bad debt data and the status of delinquent receivables, the financial status of creditors, etc., historical events, recent circumstances, and forecasts of economic circumstances.

For financial assets whose credit risk has not increased significantly and trade receivables, lease receivables, etc., without a significant financing component, expected credit losses are collectively valued based on historical credit loss data, with all these assets classed as one group, as their credit risk characteristics are almost the same.

For financial assets whose credit risk has increased significantly and credit-impaired financial assets, expected credit losses are valued on an individual basis, after adjustment for historical credit loss data, future estimated recoverable amount, etc.

Changes in allowance for doubtful accounts are as follows:

	Trade and other receivables	Financial assets other than trade and other receivables		
	Lifetime expected credit losses (trade receivables, etc., without a significant financing component)	12-month expected credit losses	Lifetime expected credit losses (Financial assets whose credit risk has increased significantly since initial recognition)	Credit-impaired financial assets (Lifetime expected credit losses)
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2016	3	—	115	65
Provision (net)	0	—	—	49
Use	—	—	—	—
Balance as of February 28, 2017	3	—	115	114
Provision (net)	1	0	—	—
Use	—	—	—	(10)
Balance as of February 28, 2018	5	0	115	103

2) The carrying amounts of financial assets by risk type (before deducting allowance for doubtful accounts) are as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Trade and other receivables (Lifetime expected credit losses)	9,634	9,841	10,844
Financial instruments other than trade and other receivables (12-month expected credit losses)	22,806	22,145	21,338
Financial instruments whose credit risk has increased significantly since initial recognition (Lifetime expected credit losses)	302	295	289
Credit-impaired financial instruments (Lifetime expected credit losses)	65	114	103

There are no significant changes to the total amount of carrying amounts of the kind that would materially affect allowance for doubtful accounts.

Credit risk for trade and other receivables on each reporting date was assessed as extremely low. In addition, for financial instruments other than trade and other receivables, the Group does not have any credit risk overly concentrated in any specific counterparty or a group to which the counterparty belongs.

Furthermore, the maximum exposure to credit risk on financial assets is the carrying amount after impairment presented in consolidated financial statements. The Group does not hold any properties as collateral or other credit enhancements in regard to exposure to these credit risks.

(4) Liquidity risk management

Liquidity risk is the risk of failure to make payments on the due date in situations when the Group is required to fulfill its repayment obligations for financial liabilities due.

The Group manages liquidity risk by methods including preparing monthly cash flow plans at each company, in addition to managing liquidity risk through overdraft agreements with its main banks.

The balance of financial liabilities (other than lease obligations) by maturity is as follows:

IFRS transition date (March 1, 2016)

	Carrying amount (Millions of yen)	Contractual amount (Millions of yen)	Due within one year (Millions of yen)	Due after one year through two years (Millions of yen)	Due after two years through three years (Millions of yen)	Due after three years through four years (Millions of yen)	Due after four years through five years (Millions of yen)	Due after five years (Millions of yen)
Non-derivative financial liabilities								
Trade and other payables	23,317	23,317	23,317	—	—	—	—	—
Commercial paper	11,399	11,400	11,400	—	—	—	—	—
Non-current borrowings	43,165	43,886	8,259	17,524	6,822	6,557	3,716	1,006
Guarantee deposits received	31,618	31,554	1,366	3,963	2,983	2,253	1,820	19,166
Derivative financial liabilities								
Interest rate swaps	104	104	52	44	5	1	—	—
Total	109,606	110,263	44,396	21,533	9,811	8,811	5,537	20,173

As of February 28, 2017

	Carrying amount (Millions of yen)	Contractual amount (Millions of yen)	Due within one year (Millions of yen)	Due after one year through two years (Millions of yen)	Due after two years through three years (Millions of yen)	Due after three years through four years (Millions of yen)	Due after four years through five years (Millions of yen)	Due after five years (Millions of yen)
Non-derivative financial liabilities								
Trade and other payables	21,310	21,310	21,310	—	—	—	—	—
Commercial paper	2,099	2,100	2,100	—	—	—	—	—
Non-current borrowings	56,062	56,794	18,474	7,769	7,501	5,158	10,834	7,056
Guarantee deposits received	28,888	28,818	1,782	3,618	3,282	2,130	2,634	15,370
Derivative financial liabilities								
Interest rate swaps	39	39	33	4	1	—	—	—
Total	108,400	109,062	43,700	11,392	10,785	7,289	13,468	22,426

As of February 28, 2018

	Carrying amount (Millions of yen)	Contractual amount (Millions of yen)	Due within one year (Millions of yen)	Due after one year through two years (Millions of yen)	Due after two years through three years (Millions of yen)	Due after three years through four years (Millions of yen)	Due after four years through five years (Millions of yen)	Due after five years (Millions of yen)
Non-derivative financial liabilities								
Trade and other payables	23,780	23,780	23,780	—	—	—	—	—
Current borrowings	1,000	1,000	1,000	—	—	—	—	—
Non-current borrowings	51,820	52,686	7,827	7,560	5,216	10,891	6,085	15,105
Guarantee deposits received	28,002	27,988	821	3,823	2,925	3,065	1,710	15,641
Derivative financial liabilities								
Interest rate swaps	4	4	3	1	—	—	—	—
Total	104,608	105,460	33,433	11,384	8,142	13,956	7,796	30,747

(Note) Net receivables and liabilities resulting from derivative transactions are presented on a net basis.

If funds are temporarily insufficient for the payment of trade payables, etc., the Group procures funds with the following financing methods. Fund procurement methods and the status of procurement in each fiscal year were as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Commitment line			
Used	—	—	—
Unused	—	—	—
Total	—	—	—
Overdraft limit			
Used	—	—	1,000
Unused	25,860	29,560	28,560
Total	25,860	29,560	29,560
Commercial paper issuance limit			
Used	11,400	2,100	—
Unused	8,600	17,900	20,000
Total	20,000	20,000	20,000

(5) Foreign currency risk management

The Group conducts transactions denominated in foreign currencies and is exposed to the risk of fluctuations in exchange rates of foreign currencies against the Japanese yen.

In order to mitigate the risk of fluctuations in exchange rates for all transactions denominated in foreign currencies, the Group hedges the risk by conducting currency swaps.

Foreign exchange sensitivity analysis

In regard to transactions denominated in foreign currencies with the risk of fluctuations in exchange rates, the Group uses currency swaps to ensure fixed cash flows and mitigate the risk of fluctuations in exchange rates. Accordingly, the Group's exposure to the risk of fluctuations in exchange rates is limited, and the effect from fluctuations in exchange rates is immaterial.

Furthermore, other comprehensive income fluctuates in line with the translation of financial statements of the Group's foreign subsidiaries, etc., but the Group does not consider the effect thereof as material.

(6) Interest rate risk management

The Group procures funds through interest-bearing liabilities. A variable interest rate is applied to certain interest-bearing liabilities, and the Group is exposed to the risk of fluctuations in interest rates.

In order to mitigate the risk of fluctuations in interest rates for all variable interest rates, the Group hedges the risk by conducting interest rate swaps.

Interest rate sensitivity analysis

In regard to variable interest rate non-current borrowings with the risk of interest rate fluctuations, the Group uses interest rate swaps to ensure fixed cash flows and mitigate the risk of fluctuations in interest rates. Accordingly, the Group's exposure to the risk of fluctuations in interest rates is limited, and the effect from fluctuations in interest rates is immaterial.

(7) Market price fluctuation risk management

The Group is exposed to the risk of fluctuations in prices caused by equity securities held. The Group regularly grasps the fair values, financial condition of issuers, etc., of equity instruments, and reviews the status of holdings on an ongoing basis.

Stock market price sensitivity analysis

Equity securities are designated as financial assets measured at fair value through other comprehensive income, and fluctuations in share prices have no impact on profit or loss, and the effect on other comprehensive income is immaterial.

(8) Fair value of financial instruments

1) Calculation method of fair value

The calculation methods of the fair value of financial instruments are as follows:

Other financial assets and other financial liabilities

In regard to lease and guarantee deposits and guarantee deposits received, the Group calculates fair value by discounting future cash flows at an interest rate adjusted for the period until the due date and credit risk.

Bonds and borrowings

In regard to non-current borrowings, fair value is calculated by the method that the total principal and interest are discounted at an interest rate expected if similar new borrowings were conducted.

Lease obligations

Fair value is calculated by the method that the total principal and interest are discounted at an interest rate expected if similar new lease transactions were conducted.

2) Financial instruments measured at amortized cost

The carrying amounts and fair values of financial instruments measured at amortized cost are as follows.

Furthermore, financial instruments measured at fair value and financial instruments whose carrying amount and fair value are extremely close are not included in the following table.

	IFRS Transition Date (March 1, 2016)		As of February 28, 2017		As of February 28, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Assets:						
Financial assets measured at amortized cost						
Other financial assets						
Lease and guarantee deposits	22,831	24,241	22,197	23,428	21,399	22,551
Total	22,831	24,241	22,197	23,428	21,399	22,551
Liabilities:						
Financial liabilities measured at amortized cost						
Bonds and borrowings						
Non-current borrowings	35,265	35,625	37,882	37,998	44,240	44,067
Other financial liabilities						
Guarantee deposits received	31,618	31,640	28,888	28,867	28,002	27,990
Total	66,884	67,266	66,770	66,865	72,242	72,058

The fair value of non-current borrowings is categorized within Level 2 and that of lease and guarantee deposits and guarantee deposits received is categorized within Level 3.

3) Lease obligations

The carrying amount and fair value of the lease obligations are as follows:

	IFRS Transition Date (March 1, 2016)		As of February 28, 2017		As of February 28, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Liabilities:						
Lease obligations	563	563	1,283	3,029	6,652	11,010

(9) Financial assets measured at fair value through other comprehensive income

The Group holds investments in equity instruments mainly in order to maintain and strengthen business relationships, and therefore the Group designates them as financial assets measured at fair value through other comprehensive income.

1) Fair value of each security

In regard to investments in equity instruments designated as financial assets measured at fair value through other comprehensive income, the fair value of each security is mainly as follows:

IFRS Transition Date (March 1, 2016)		As of February 28, 2017		As of February 28, 2018	
Securities	(Millions of yen)	Securities	(Millions of yen)	Securities	(Millions of yen)
TOKYO THEATRES COMPANY, INCORPORATED	105	Tower Records Japan Inc.	167	Tower Records Japan Inc.	116
Tower Records Japan Inc.	80	SLD Entertainment, Inc.	46	Ryohin Keikaku Co., Ltd.	66
SLD Entertainment, Inc.	63	Ryohin Keikaku Co., Ltd.	41	NOMURA Co., Ltd.	37
Ryohin Keikaku Co., Ltd.	38	NOMURA Co., Ltd.	30	FamilyMart UNY Holdings Co., Ltd.	18
NOMURA Co., Ltd.	22	FamilyMart UNY Holdings Co., Ltd.	15	Other	37
FamilyMart Co., Ltd.	12	Other	56		
Other	56				

2) Dividend income

Fiscal year ended February 28, 2017		Fiscal year ended February 28, 2018	
Investments derecognized during the period	Investments held on February 28, 2017	Investments derecognized during the period	Investments held on February 28, 2018
(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
0	2	0	1

3) Financial assets measured at fair value through other comprehensive income derecognized during the period
In order to increase efficiency and ensure effective utilization of assets held, the Group sells financial assets measured at fair value through other comprehensive income, and fair value on the date of sale thereof and cumulative gain or loss on the sale (before tax) are as follows:

Fiscal year ended February 28, 2017		Fiscal year ended February 28, 2018	
Fair value on the date of sale	Cumulative gain (loss) on sale	Fair value on the date of sale	Cumulative gain (loss) on sale
(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
195	55	96	22

4) Transfer to retained earnings
If disposing of investments, or in cases when fair value has significantly declined compared with the acquisition cost, the Group transfers cumulative gain or loss caused by fluctuations in the fair value of financial assets measured at fair value through other comprehensive income to retained earnings. In the fiscal years ended February 28, 2017 and February 28, 2018, cumulative gain or loss (after tax) in other comprehensive income transferred to retained earnings was 36 million yen and 15 million yen, respectively.

(10) Derivatives and hedges

1) Cash flow hedges
Cash flow hedges are hedges to avoid the risk of fluctuations in future cash flows. The Company uses interest rate swaps and currency swaps to hedge fluctuations in cash flows related to variable interest rate borrowings and borrowings denominated in foreign currencies. Furthermore, the hedge ratio of variable interest rate borrowings and borrowings denominated in foreign currencies and their hedging instruments, interest rate swaps and currency swaps, is 1:1, as they are conducted with the same amounts. Of changes in the fair value of derivatives transactions that are hedging instruments, the effective portion of the hedge is recognized as other comprehensive income, and reclassified to profit or loss in the same period during which the hedged cash flows affect profit or loss.

Furthermore, the Group determines the economic relationship between the hedged item and hedging instrument based on the amount and timing of related cash flows, etc. In addition, the critical terms of the hedging instrument and the hedged item match in hedging relationships to which the Group currently applies hedge accounting, and at the same time, transaction counterparties are highly rated financial institutions with low credit risk, and therefore the Group basically does not expect hedges to become ineffective, and in fact no hedges have become ineffective.

The details of hedging instruments designated as cash flow hedges are as follows:

IFRS transition date (March 1, 2016)

	Notional principal	Exceeding one year	Carrying amount		Line item in the consolidated statement of financial position
			Assets	Liabilities	
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	
Interest rate risk					
Interest rate swaps	12,120	9,940	—	104	Other financial liabilities (current liabilities)
Foreign currency risk					
Currency swaps	300	300	67	—	Other financial assets (current assets)

The average interest rate on interest rate swaps is 0.86%. The average rate on currency swaps is 112.5 yen per US dollar. The notional principal of currency swaps on a US dollar basis is 3 million US dollars.

As of February 28, 2017

	Notional principal	Exceeding one year	Carrying amount		Line item in the consolidated statement of financial position
			Assets	Liabilities	
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	
Interest rate risk					
Interest rate swaps	9,940	1,660	—	39	Other financial liabilities (current liabilities)
Foreign currency risk					
Currency swaps	300	—	67	—	Other financial assets (current assets)

The average interest rate on interest rate swaps is 0.88%. The average rate on currency swaps is 112.4 yen per US dollar. The notional principal of currency swaps on a US dollar basis is 3 million US dollars.

As of February 28, 2018

	Notional principal	Exceeding one year	Carrying amount		Line item in the consolidated statement of financial position
			Assets	Liabilities	
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)	
Interest rate risk					
Interest rate swaps	1,660	380	—	4	Other financial liabilities (current liabilities)

The average interest rate on interest rate swaps is 0.72%.

Changes in other components of equity (changes in the fair value of hedging instruments) are as follows:

Fiscal year ended February 28, 2017

	Effective portion of changes in the fair value of cash flow hedges		
	Foreign currency risk	Interest rate risk	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2016	45	(70)	(25)
Other comprehensive income			
Amount arising during the period (Note)	(0)	65	64
Reclassification adjustments	—	—	—
Tax effect	1	(21)	(20)
Balance as of February 28, 2017	46	(27)	19

Information on changes in the value of hedged items used as the basis for recognizing ineffective portions of hedges is omitted, as no ineffective portions of hedges were recognized in profit or loss.

(Note) The Group designates all interest rate swaps and currency swaps as hedging instruments, and at the same time, no hedges became ineffective, and therefore this information matches the changes in the fair value of hedging instruments.

Fiscal year ended February 28, 2018

	Effective portion of changes in the fair value of cash flow hedges		
	Foreign currency risk	Interest rate risk	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Balance as of March 1, 2017	46	(27)	19
Other comprehensive income			
Amount arising during the period (Note) 1	(6)	34	27
Reclassification adjustments (Note) 2	(60)	—	(60)
Tax effect	20	(10)	9
Balance as of February 28, 2018	—	(3)	(3)

Information on changes in the value of hedged items used as the basis for recognizing ineffective portions of hedges is omitted, as no ineffective portions of hedges were recognized in profit or loss.

(Notes) 1. The Group designates all interest rate swaps and currency swaps as hedging instruments, and at the same time, no hedges became ineffective, and therefore this information matches the changes in the fair value of hedging instruments.
2. The line item of reclassification adjustments is included in other expense.

35. Fair Value Measurement

In regard to financial instruments measured at fair value, the fair value amounts measured are categorized into three levels, from Level 1 to Level 3, in accordance with the observability and materiality of inputs used in measurement.

Level 1: Market prices for identical assets or liabilities in active markets
Level 2: Fair value, other than Level 1, that is determined by directly or indirectly using the observable price
Level 3: Fair value that is determined using a valuation technique including unobservable inputs

(1) Sensitivity analysis for changes in significant unobservable inputs

Of the fair values of assets measured at fair value on a recurring basis that are categorized within Level 3, the fair values of financial assets measured at fair value through other comprehensive income valued with the income approach decrease (increase) with increases (decreases) in the discount rate, and increase (decrease) with increases (decreases) in the revenue growth rate.

(2) Fair value hierarchy

The fair value hierarchy of financial instruments measured at fair value is as follows:

IFRS transition date (March 1, 2016)

	Level 1	Level 2	Level 3	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Assets:				
Financial assets measured at fair value through profit or loss				
Derivative financial assets	—	67	—	67
Financial assets measured at fair value through other comprehensive income				
Equity securities	242	—	137	379
Total	242	67	137	446
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivative financial liabilities	—	104	—	104
Total	—	104	—	104

As of February 28, 2017

	Level 1	Level 2	Level 3	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Assets:				
Financial assets measured at fair value through profit or loss				
Derivative financial assets	—	67	—	67
Financial assets measured at fair value through other comprehensive income				
Equity securities	135	—	224	359
Total	135	67	224	426
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivative financial liabilities	—	39	—	39
Total	—	39	—	39

As of February 28, 2018

	Level 1	Level 2	Level 3	Total
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Assets:				
Financial assets measured at fair value through other comprehensive income				
Equity securities	122	—	153	275
Total	122	—	153	275
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivative financial liabilities	—	4	—	4
Total	—	4	—	4

Transfers between fair value hierarchy levels are recognized on the date of the event or change in circumstances that caused the transfer. In the fiscal years ended February 28, 2017 and February 28, 2018, no transfers between levels have occurred.

For derivative financial assets and derivative financial liabilities whose fair value measurement is categorized within Level 2, the fair value is determined by a reasonable valuation method based on available data, including fair value presented by counterparty financial institutions, etc.

Financial instruments whose fair value measurement is categorized within Level 3 comprise non-listed securities. The fair value of non-listed securities is measured using a valuation model based on the market prices of similar companies, with an illiquidity discount (30%) as the main unobservable input.

Furthermore, the Group does not expect any significant changes in the fair values of financial instruments whose fair value measurement is categorized within Level 3 if one or more unobservable inputs are changed to reflect reasonably possible alternative assumptions.

(3) Valuation process

In regard to financial instruments whose fair value measurement is categorized within Level 3, external valuation specialists or suitable persons responsible for valuation conduct valuations and analyze valuation results in accordance with valuation policies and procedures approved by managers in finance departments. Valuation results are reviewed and approved by the managers of finance departments.

(4) Reconciliation of financial instruments whose fair value measurement is categorized within Level 3 from the opening balances to the closing balances

Changes in financial instruments whose fair value measurement is categorized within Level 3 are as follows:

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Balance at beginning of period	137	224
Total gains or losses		
Other comprehensive income (Note)	87	(50)
Purchase	—	—
Sale	—	(19)
Other, net	—	—
Balance at end of period	224	153

(Note) Gains or losses included in other comprehensive income relate to financial assets measured at fair value through other comprehensive income as of the reporting date. These gains or losses are included in "financial assets measured at fair value through other comprehensive income" in the consolidated statements of comprehensive income.

(5) Assets and liabilities measured at fair value on a non-recurring basis

For assets and liabilities measured at fair value on a non-recurring basis, please refer to "15. Impairment of Non-financial Assets."

36. Important Subsidiaries

(1) Subsidiaries

Status of major subsidiaries at the end of each fiscal year is as follows:

			Proportion of voting rights held (%)		
Name	Location	Reportable segment	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
NEUVE A CO., LTD.	Japan	Retail Business	100.0	100.0	100.0
PARCO SPACE SYSTEMS CO., LTD.	Japan	Space Engineering and Management Business	100.0	100.0	100.0
PARCO Digital Marketing CO., LTD.	Japan	Other Business	100.0	100.0	100.0
PARCO (Singapore) Pte Ltd	Singapore	Shopping Complex Business	100.0	100.0	100.0

(2) Subsidiaries with non-controlling interests that are material to the reporting entity

The Company has no subsidiaries with non-controlling interests that are material to it.

37. Related Parties

(1) Parent company

The parent company of the Group is J. FRONT RETAILING Co., Ltd.

There are no significant transactions between the Group and its parent company.

(2) Related party transactions

Fiscal year ended February 28, 2017

The disclosure of related party transactions is omitted as they are immaterial.

Fiscal year ended February 28, 2018

Category	Name	Content of transactions	Amount of transactions	Amount of outstanding balances
			(Millions of yen)	(Millions of yen)
Subsidiary of parent company	Daimaru Matsuzakaya Department Stores Co. Ltd.	Lease of real estate for commercial use	97	5,861
Key management personnel of the Company and close members of the family thereof	Poppins Corporation (Note) 1	Contracting of construction work	158	114

(Notes)
1. Director Ms. Noriko Nakamura and her close members of the family hold a majority of voting rights.
2. Of the above amounts, the amount of transactions does not include consumption taxes, etc., while the amount of outstanding balances includes consumption taxes, etc.
3. Terms and conditions of transactions and the policy of determining the terms and conditions of the transactions:
   •Leases of real estate for commercial use are determined after negotiation, based on prices presented, etc.
   •In regard to contracting of construction work, transaction amounts are determined in the same way as general transaction criteria.
4. There are no transactions with collateral or guarantee, and transactions are settled in cash. In addition, an allowance for doubtful accounts is established for receivables as general receivables, but as it is immaterial, disclosure is omitted.

(3) Key management personnel compensation

Key management personnel compensation is as follows.

The key management personnel of the Group are Directors and Executive Officers of the Company in each fiscal year.

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	(Millions of yen)	(Millions of yen)
Base compensation, etc.	446	489
Total	446	489

38. Commitments

As of the IFRS transition date (March 1, 2016), February 28, 2017 and February 28, 2018, material commitments contractually committed to in regard to the acquisition of property, plant and equipment and investment property were 2,473 million yen, 1,929 million yen and 8,568 million yen, respectively.

39. Subsequent Events

Not applicable.

40. First-Time Adoption

The Group disclosed the consolidated financial statements under IFRS from the fiscal year ended February 28, 2018. The most recent consolidated financial statements prepared in accordance with Japanese GAAP are those for the fiscal year ended February 28, 2017, and the date of transition to IFRS is March 1, 2016.

(1) Exemptions and exceptions in IFRS 1

1) Exemption in IFRS 1

In principle, IFRS requires companies adopting IFRS for the first time (first-time adopters) to apply standards required by IFRS retrospectively. However, for some of the standards required under IFRS, IFRS 1 "First-time Adoption of International Financial Reporting Standards" (hereinafter referred to as "IFRS 1") specifies standards for which the exemption is applied mandatorily and those for which the exemption is applied voluntarily. The effect of the application of these exemptions was adjusted in retained earnings and other components of equity as of the date of transition to IFRS.

The items of exemption adopted by the Group in transitioning from Japanese GAAP to IFRS are as follows:

- Business combinations

  First-time adopters are permitted to elect not to apply IFRS 3 "Business Combinations" (hereinafter referred to as "IFRS 3") retrospectively to business combinations that occurred prior to the date of transition to IFRS. The Group elected to apply this exemption and did not apply IFRS 3 retrospectively to business combinations that occurred before the date of transition to IFRS. Consequently, the amount of goodwill arising from business combinations before the date of transition is based on the carrying amount as of the date of transition under Japanese GAAP. The Group performed an impairment test on goodwill at the date of transition regardless of whether there was any indication that the goodwill might be impaired.

- Use of deemed cost
  IFRS 1 permits an entity to measure items of property, plant and equipment, investment property and intangible assets at the date of transition to IFRS at its fair value and use that fair value as deemed cost at that date. The Group uses the fair value at the date of transition to IFRS as deemed cost at the date of transition to IFRS for certain items of property, plant and equipment.
- Exchange differences on translation of foreign operations
  IFRS 1 permits to elect the cumulative amount of exchange differences on translation of foreign operations to be deemed to be zero at the date of transition to IFRS. The Group elected to deem cumulative exchange differences on translation of foreign operations as zero at the date of transition to IFRS.
- Designation of financial instruments recognized prior to date of transition
  IFRS 1 permits an entity to determine the classification under IFRS 9 "Financial Instruments" (hereinafter referred to as "IFRS 9") on the basis of the facts and circumstances that exist at the date of transition, rather than the facts and circumstances at the initial recognition. In addition, an entity is permitted to designate changes in fair value of equity instruments as financial assets measured through other comprehensive income based on the facts and circumstances that exist at the date of transition.
  The Group has determined the classification under IFRS 9 based on the facts and circumstances that existed at the date of transition and designated certain equity instruments as financial assets measured at fair value through other comprehensive income.
- Leases
  Under IFRS 1, a first-time adopter may evaluate whether an arrangement contains a lease or not at the date of transition to IFRS. The Group adopts this exemption and evaluates whether an arrangement contains a lease or not based on facts and circumstances existing at that date.
- Decommissioning liabilities included in the cost of property, plant and equipment
  In regard to liabilities related to decommissioning obligations included in the cost of property, plant and equipment, IFRS 1 permits an entity to select either the method of retrospective application from the initial occurrence of the decommissioning obligations or the method of measuring the obligation at the date of transition, discounting that amount back to the date the obligation arose, and calculating accumulated depreciation until the date of transition.
  The Group has selected the method of measuring decommissioning obligations included in the cost of property, plant and equipment at the date of transition, discounting that amount back to the date the obligation arose, and calculating accumulated depreciation until the date of transition.
- Borrowing costs
  IFRS 1 permits an entity to commence capitalization of borrowing costs relating to qualifying assets at the date of transition to IFRS. The Group has adopted this exemption and continues to expense borrowing costs for construction projects that were started and finished before the date of transition.
  For borrowing costs for construction projects that were started before the date of transition and are under on and after the date of transition, the Group expenses the borrowing costs incurred before the date of transition, and capitalizes those incurred on and after the date of transition in accordance with IAS 23 "Borrowing costs."

2) Mandatory exceptions of IFRS 1
IFRS 1 prohibits retrospective application of IFRS for estimates, derecognition of financial assets and financial liabilities, hedge accounting, classification and measurement of financial assets, and impairment of financial assets.
The Group has prospectively applied IFRS for these items from the date of transition.

(2) Reconciliations

Reconciliations that are required to be disclosed under the first-time adoption of IFRS are as follows:

Reconciliation of equity as of the IFRS transition date, March 1, 2016

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRS
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)		
Assets						Assets
Current assets						Current assets
Cash and deposits	6,840	(257)	1	6,584	(1)	Cash and cash equivalents
Notes and operating accounts receivable	8,289	1,136	205	9,631	(2)(3)(5)	Trade and other receivables
Merchandise and finished goods	3,387	690	(339)	3,738	(4)	Inventories
Work in process	653	(653)	—	—		
Raw materials and supplies	37	(37)	—	—		
	—	1,246	66	1,312	(6)	Other financial assets
Other	4,689	(3,200)	167	1,656		Other current assets
Allowance for doubtful accounts	(3)	3	—	—		
Total current assets	23,894	(1,071)	100	22,923		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	172,215	(6,807)	8,688	174,096	(8)	Property, plant and equipment
	—	6,807	31	6,839	(9)	Investment property
Intangible assets	11,641	(10,237)	(192)	1,211	(11)	Intangible assets
Investments and other assets						
Investment securities	1,192	23,482	(2,290)	22,385	(5)(6)	Other financial assets
Lease and guarantee deposits	23,863	(23,863)	—	—		
	—	405	(20)	385	(12)	Investments accounted for using equity method
	—	3,441	1,377	4,818	(7)	Deferred tax assets
Other	3,688	7,663	(8,351)	3,000	(5)(10)	Other non-current assets
Allowance for doubtful accounts	(180)	180	—	—		
Total non-current assets	212,421	1,071	(756)	212,736		Total non-current assets
Total assets	236,315	—	(656)	235,659		Total assets

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRS
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)		
						Liabilities and equity
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and operating accounts payable-trade	17,258	4,615	1,443	23,317	(2)(17)	Trade and other payables
Short-term loans payable	7,919	11,399	(19)	19,299	(13)	Bonds and borrowings
	—	1,590	105	1,696	(6)	Other financial liabilities
Income taxes payable	2,627	—	0	2,627		Income tax payables
Provisions	2,065	(1,572)	—	492	(14)	Provisions
Other	20,862	(16,033)	365	5,194	(14)(16)	Other current liabilities
Total current liabilities	50,732	—	1,895	52,627		Total current liabilities
Non-current liabilities						Non-current liabilities
Long-term loans payable	35,200	—	65	35,265	(13)	Bonds and borrowings
	—	30,527	62	30,590	(6)	Other financial liabilities
Net defined benefit liability	2,281	—	187	2,468	(15)	Net defined benefit liability
Guarantee deposits received	30,188	(30,188)	—	—		
Provisions	564	505	—	1,069	(14)	Provisions
Other	874	(845)	—	29		Other non-current liabilities
Total non-current liabilities	69,108	—	315	69,423		Total non-current liabilities
Total liabilities	119,841	—	2,210	122,051		Total liabilities
Net assets						Equity
Capital stock	34,367	—	—	34,367		Share capital
Capital surplus	35,129	—	—	35,129		Share premium
Retained earnings	47,154	(101)	(2,652)	44,400	(18)(19)	Retained earnings
Treasury shares	(3)	—	—	(3)		Treasury shares
Accumulated other comprehensive income	(172)	101	(214)	(285)		Other components of equity
	116,474	—	(2,866)	113,607		Total equity attributable to owners of parent
Total net assets	116,474	—	(2,866)	113,607		Total equity
Total liabilities and net assets	236,315	—	(656)	235,659		Total liabilities and equity

Financial Section

Reconciliation of equity as of February 28, 2017 (Comparative consolidated reporting period)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRS
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)		
Assets						Assets
Current assets						Current assets
Cash and deposits	10,582	(80)	20	10,522	(1)	Cash and cash equivalents
Notes and operating accounts receivable	8,378	1,316	142	9,837	(2)(3)(5)	Trade and other receivables
Merchandise and finished goods	3,538	7,193	(638)	10,092	(4)	Inventories
Work in process	748	(748)	—	—		
Real estate for sale in process	6,406	(6,406)	—	—		
Raw materials and supplies	37	(37)	—	—		
	—	1,289	66	1,356	(6)	Other financial assets
Other	5,400	(3,815)	153	1,738		Other current assets
Allowance for doubtful accounts	(44)	44	—	—		
Total current assets	35,048	(1,245)	(255)	33,547		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	177,362	(6,489)	8,970	179,843	(8)	Property, plant and equipment
	—	6,489	31	6,521	(9)	Investment property
Intangible assets	12,068	(10,233)	(264)	1,570	(11)	Intangible assets
Investments and other assets						
Investment securities	750	22,807	(2,081)	21,476	(5)(6)	Other financial assets
Lease and guarantee deposits	22,865	(22,865)	—	—		
	—	71	(20)	50	(12)	Investments accounted for using equity method
	—	2,315	642	2,958	(7)	Deferred tax assets
Other	2,417	8,961	(8,540)	2,838	(5)(10)	Other non-current assets
Allowance for doubtful accounts	(189)	189	—	—		
Total non-current assets	215,275	1,245	(1,261)	215,258		Total non-current assets
Total assets	250,323	—	(1,517)	248,806		Total assets

Line items under Japanese GAAP	Japanese GAAP (Millions of yen)	Reclassification (Millions of yen)	Differences in recognition and measurement (Millions of yen)	IFRS (Millions of yen)	Notes	Line items under IFRS
						Liabilities and equity
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and operating accounts payable-trade	15,882	3,903	1,524	21,310	(2)(17)	Trade and other payables
Short-term loans payable	18,180	2,099	—	20,279	(13)	Bonds and borrowings
	—	2,141	(84)	2,056	(6)	Other financial liabilities
Income taxes payable	1,290	—	0	1,290		Income tax payables
Provisions	2,704	(1,634)	(26)	1,044	(14)	Provisions
Other	15,067	(6,510)	97	8,654	(14)(16)	Other current liabilities
Total current liabilities	53,126	—	1,510	54,636		Total current liabilities
Non-current liabilities						Non-current liabilities
Long-term loans payable	37,820	—	62	37,882	(13)	Bonds and borrowings
	—	29,927	(1,773)	28,154	(6)	Other financial liabilities
Net defined benefit liability	1,976	—	154	2,130	(15)	Net defined benefit liability
Guarantee deposits received	27,036	(27,036)	—	—		
	—	474	—	474	(14)	Provisions
Other	8,325	(3,365)	(33)	4,926		Other non-current liabilities
Total non-current liabilities	75,158	—	(1,589)	73,568		Total non-current liabilities
Total liabilities	128,284	—	(78)	128,205		Total liabilities
Net assets						Equity
Capital stock	34,367	—	—	34,367		Share capital
Capital surplus	35,129	—	—	35,129		Share premium
Retained earnings	52,549	63	(1,320)	51,292	(18)(19)	Retained earnings
Treasury shares	(4)	—	—	(4)		Treasury shares
Accumulated other comprehensive income	(2)	(63)	(118)	(184)		Other components of equity
	122,039	—	(1,438)	120,600		Total equity attributable to owners of parent
Total net assets	122,039	—	(1,438)	120,600		Total equity
Total liabilities and net assets	250,323	—	(1,517)	248,806		Total liabilities and equity

Notes on reconciliation of equity

(1) Reclassification of cash and deposits
Time deposits with deposit terms of more than three months, which were included in "cash and deposits" under Japanese GAAP, have been reclassified to "other financial assets (current)" under IFRS.

(2) Reclassification of accounts receivable - other and accounts payable - other
"Accounts receivable - other," which were included in "other" under current assets under Japanese GAAP, have been reclassified to "trade and other receivables (current)" under IFRS, while "accounts payable - other," which were included in "other" under current liabilities under Japanese GAAP, have been reclassified to "trade and other payables (current)" under IFRS.

(3) Adjustment to trade and other receivables due to the change of timing of revenue recognition from construction
For construction whose percentage of completion cannot be reasonably estimated at the end of the reporting period, costs occurring until the end of the reporting period are recognized as revenue, and therefore "trade and other receivables (current)" are adjusted.

(4) Reclassification of merchandise and finished goods, work in process, real estate for sale in process, and raw materials and supplies
"Merchandise and finished goods," "work in process," "real estate for sale in process," and "raw materials and supplies," which were presented separately as current assets under Japanese GAAP, have been reclassified to "inventories" under IFRS.

(5) Reclassification of allowance for doubtful accounts
"Allowance for doubtful accounts (current)," which was presented separately under Japanese GAAP, has been reclassified to be presented on a net basis by directly deducting the item from "trade and other receivables (current)" under IFRS. Likewise, "allowance for doubtful accounts (non-current)" has been reclassified to be presented on a net basis by directly deducting the item from "other financial assets (non-current)" and "other non-current assets."

(6) Other financial assets and financial liabilities
"Short-term loans receivable" and "short-term lease and guarantee deposits," which were included in "other" under current assets under Japanese GAAP, have been reclassified to "other financial assets (current)" under IFRS, and "investment securities" and "lease and guarantee deposits," which were presented separately under Japanese GAAP, and "long-term loans receivable," which were included in "other" under non-current assets, have been reclassified to "other financial assets (non-current)" under IFRS.
In addition, "short-term guarantee deposits received" and "short-term lease obligations," which were included in "other" under current liabilities under Japanese GAAP, have been reclassified to "other financial liabilities (current)" under IFRS, and "guarantee deposits received," which were presented separately under Japanese GAAP, and "long-term lease obligations," which were included in "other" under non-current liabilities, have been reclassified to "other financial liabilities (non-current)" under IFRS.

(7) Reclassification of deferred tax assets and liabilities, and review of recoverability of deferred tax assets
Since under IFRS, all deferred tax assets and liabilities are to be classified into non-current items, irrespective of current or non-current, deferred tax assets and liabilities that were recorded in current items have been reclassified to non-current items. In addition, upon the adoption of IFRS, recoverability of all deferred tax assets has been reviewed.

(8) Adjustment to the amount of property, plant and equipment
For certain property, plant and equipment, the Group elected to apply the exemption where fair value as of the date of transition to IFRS is used as deemed cost. The carrying amount and fair value of property, plant and equipment for which deemed cost is used were 72,075 million yen and 82,433 million yen, respectively, as of the date of transition. In addition, the cost of land acquired in exchange in kind was measured at the carrying amount of the land delivered under Japanese GAAP, but it is measured at the fair value of the land acquired under IFRS. Taxes on the acquisition of non-current assets, which were expensed under Japanese GAAP, are capitalized under IFRS.

(9) Reclassification of investment property
Based on IFRS presentation rules, "investment property" has been reclassified from "property, plant and equipment."

(10) Reclassification of leasehold right
"Leasehold right," which was included in intangible assets under Japanese GAAP, has been reclassified to "other non-current assets" as a long-term prepaid expense under IFRS, and amortized over the contract period.

(11) Adjustment to the amount of goodwill
Goodwill is amortized under Japanese GAAP, but it is not amortized under IFRS.

(12) Adjustment to the amount of investments accounted for using equity method
"Investments accounted for using equity method," which was included in "investment securities" under Japanese GAAP, is presented separately under IFRS. In addition, goodwill for entities accounted for using equity method is amortized under Japanese GAAP, but it is not amortized under IFRS.

(13) Reclassification of bonds and borrowings
"Short-term loans payable," which were presented separately under current liabilities under Japanese GAAP, and "commercial paper," which were included in "other" under current liabilities, have been reclassified to "bonds and borrowings (current)" under IFRS, and "long-term loans payable," which were presented separately under non-current liabilities under Japanese GAAP, have been reclassified to "bonds and borrowings (non-current)" under IFRS.

(14) Reclassification of provisions
"Provision for bonuses," "provision for sales returns," "provision for books unsold," and "provision for sales promotion expenses," which were included in "provisions" under current liabilities under Japanese GAAP, have been reclassified to "other current liabilities" under IFRS. In addition, "asset retirement obligations," which were included in "other" under Japanese GAAP, have been reclassified to "provisions" under IFRS.

(15) Adjustment to net defined benefit liability
Under Japanese GAAP, the Group recognized actuarial gains and losses in other comprehensive income at the time of occurrence and amortized them by the straight-line method over a certain number of years within the average remaining service period of employees, starting from the fiscal year following the fiscal year during which they occurred. However, under IFRS, the Group shall recognize actuarial gains and losses in other comprehensive income at the time of occurrence, and immediately recognize them in retained earnings.

(16) Unused paid absences
Unused paid absences, which were not accounted for under Japanese GAAP, are recorded in liabilities as "other current liabilities" under IFRS.

(17) Adjustment to levies
Items qualified as levies such as property tax were recognized at the time of payment under Japanese GAAP. Under IFRS, they are recognized on the date when an obligation event occurs.

(18) Transfer of cumulative exchange differences for foreign subsidiaries
Upon the first-time adoption of IFRS, the Group has elected the exemption set forth under IFRS 1 and transferred all cumulative exchange differences as of the date of transition to retained earnings.

(19) Adjustment to retained earnings

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017
	(Millions of yen)	(Millions of yen)
Adjustment to the amount of property, plant and equipment	8,166	10,361
Adjustment to leasehold right	(9,564)	(9,602)
Adjustment to paid absences	(442)	(547)
Adjustment to retirement benefit	(288)	(91)
Adjustment to levies	(1,443)	(1,507)
Other	(415)	(422)
Subtotal	(3,987)	(1,809)
Adjustments for tax effects	1,233	553
Total	(2,753)	(1,256)

Reconciliation of income and comprehensive income for the fiscal year ended February 28, 2017
(Comparative consolidated reporting period from March 1, 2016 to February 28, 2017)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRS
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)		
Net sales	268,373	5,003	(179,596)	93,780	(1)(6)	Operating revenue
Cost of sales	(227,930)	0	165,453	(62,477)	(1)(2)	Operating cost
Gross profit	40,443	—	—	—		
Provision for sales returns	0	(0)	—	—		
Gross profit - net	40,443	—	—	—		
Operating revenue	5,003	(5,003)	—	—		
Operating gross profit	45,446	—	(14,143)	31,302		Operating gross profit
Selling, general and administrative expenses	(32,633)	(70)	14,199	(18,505)	(2)(3)	Selling, general and administrative expenses
	—	4,860	107	4,967	(6)	Other income
	—	(5,232)	1,670	(3,561)	(6)	Other expense
Operating income	12,812	(443)	1,834	14,203		Operating profit
Non-operating income	1,407	(1,407)	—	—		
Non-operating expenses	(967)	967	—	—		
Extraordinary income	3,541	(3,541)	—	—		
Extraordinary losses	(4,965)	4,965	—	—		
	—	89	79	169	(6)	Finance income
	—	(365)	1	(364)	(6)	Finance cost
	—	(339)	(0)	(339)	(4)(6)	Share of loss of entities accounted for using equity method
Profit before income taxes	11,829	(76)	1,915	13,669		Profit before tax
Income taxes - current	(3,263)	3,263	—	—		
Income taxes - deferred	(1,040)	1,040	—	—		
	—	(4,228)	(645)	(4,873)	(7)	Income tax expense
Profit	7,525	—	1,269	8,795		Profit
Profit attributable to owners of parent	7,525	—	1,269	8,795		Profit attributable to owners of parent

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRS
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)		
Other comprehensive income						Other comprehensive income
Valuation difference on available-for-sale securities	21	—	90	112		Financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans, net of tax	164	—	25	190	(5)	Remeasurements of defined benefit plans
	—	—	44	44		Cash flow hedges
Foreign currency translation adjustment	(16)	—	(2)	(18)		Exchange differences on translation of foreign operations
Total other comprehensive income	170	—	158	328		Other comprehensive income, net of tax
Comprehensive income	7,695	—	1,428	9,124		Comprehensive income

Notes to reconciliation of income and comprehensive income

(1) Adjustment to operating revenue and operating cost
Tenants sales were recognized at the gross amount under Japanese GAAP. Under IFRS, they are recognized at the net amount. Store operating expenses paid by tenants were deducted from "selling, general and administrative expenses" under Japanese GAAP. Under IFRS, these are recognized as "operating revenue." In addition, store operating expenses were recognized as "selling, general and administrative expenses" under Japanese GAAP. Under IFRS, these are recognized as "operating cost."

(2) Adjustment to levies
Items qualified as levies such as property tax were recognized at the time of payment under Japanese GAAP. Under IFRS, they are recognized on the date when an obligation event occurs.

(3) Adjustment to the amount of goodwill
Goodwill is amortized over a certain period of time under Japanese GAAP, but it is not amortized under IFRS.

(4) Adjustment to the amount of investments accounted for using equity method
Goodwill for entities accounted for using equity method is amortized under Japanese GAAP, but it is not amortized under IFRS.

(5) Accounting of net defined benefit liability
Under Japanese GAAP, the Group recognized actuarial gains and losses in other comprehensive income at the time of occurrence and amortized them by the straight-line method over a certain number of years within the average remaining service period of employees, starting from the fiscal year following the fiscal year during which they occurred. However, under IFRS, the Group shall recognize actuarial gains and losses in other comprehensive income at the time of occurrence, and immediately recognize them in retained earnings.

(6) Adjustment to line items
Items presented under "operating revenue (eigyo shunyu)" under Japanese GAAP are recorded as "operating revenue (eigyo shueki)" under IFRS, and items presented under "non-operating income," "non-operating expenses," "extraordinary income," and "extraordinary losses" are recorded as "finance income" and "finance cost" under IFRS for profit or loss related to financing, and presented under "other income," "other expense," and "share of loss of entities accounted for using equity method" for other items.

(7) Income tax expense
Although "income taxes - current" and "income taxes - deferred" were presented separately under Japanese GAAP, these items are presented collectively as "income tax expense" under IFRS.

Reconciliation of cash flows for the fiscal year ended February 28, 2017 (from March 1, 2016 to February 28, 2017)
Cash flows related to guarantee deposits received from tenants were classified as cash flows from investing activities under Japanese GAAP. Under IFRS, these are classified as cash flows from operating activities.

As a result, cash flows from investing activities increased by 2,736 million yen and cash flows from operating activities decreased by the same amount for the fiscal year ended February 28, 2017.

41. Approval of Consolidated Financial Statements

The Company's consolidated financial statements were approved on May 28, 2018 by Kozo Makiyama, President and Representative Executive Officer.

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 statement of financial position as at February 28, 2018, and the consolidated statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended , and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

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 International Financial Reporting Standards, 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, 2018, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG AZSA LLC

July 11, 2018
Tokyo, Japan

About PARCO

Corporate Profile (As of February 28, 2018)

Company Name	PARCO CO., LTD.
Headquarters	1-28-2 Minami-Ikebukuro, Toshima-ku, Tokyo 171-0022, Japan
Head Office	Shibuya First Place Bldg. 8-16 Shinsen-cho, Shibuya-ku, Tokyo 150-0045, Japan
Founded	February 13, 1953
Paid-in Capital	¥34,367 million
Employees	632 (male 356, female 276)
Consolidated Employees	2,166
Consolidated Operating Revenue	¥91,621 million (Fiscal 2017)
Sales Floor Area	389,000 m^2
Tenants	2,090
Group Companies	NEUVE A CO., LTD. (Retail Business) PARCO SPACE SYSTEMS CO., LTD. (Space Engineering and Management Business) PARCO Digital Marketing CO., LTD. (Web-based Consulting Business) PARCO (Singapore) Pte Ltd (Southeast Asia Shopping Center Development)

Corporate History

1953 ▶ Feb. Established Ikebukuro Station Building Co., Ltd.

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

1957 ▶ May Changed company name to Tokyo Marubutsu Co., Ltd.
Dec. Started operation of department store under the name Tokyo Marubutsu

1963 ▶ Jul. Tokyo Marubutsu Co., Ltd. became a registered stock with the Osaka Securities Dealers Association

1969 ▶ Jun. Tokyo Marubutsu closed; commenced preparations for the establishment of the PARCO store
Nov. Opened Ikebukuro PARCO

1970 ▶ Apr. Changed company name to PARCO CO., LTD.

1973 ▶ Jun. Opened Shibuya PARCO
Opened PARCO Theater (former Seibu Theater)

1975 ▶ Aug. Opened Sapporo PARCO

1977 ▶ Jul. Opened Tsudanuma PARCO

1980 ▶ Sept. Opened Kichijoji PARCO

1981 ▶ Sept. Opened Shibuya PARCO PART 3

1983 ▶ Jun. Opened Shin-Tokorozawa PARCO

1984 ▶ Aug. Opened Matsumoto PARCO

1986 ▶ May Opened Kumamoto PARCO

1987 ▶ Jan. Stock listed on the 2nd Section of the Tokyo Stock Exchange

1988 ▶ Jun. Opened Shibuya CLUB QUATTRO (former QUATTRO by PARCO)
Aug. Stock listed on the 1st Section of the Tokyo Stock Exchange
Sept. Established PARCO PROMOTION CO., LTD.

1989 ▶ Apr. Launched PEC Card
May Opened Chofu PARCO
Jun. Opened Nagoya PARCO

1991 ▶ Sept. Acquired stake in SEIDENKO CO., LTD.
Nov. Established PARCO (Singapore) Pte Ltd

1993 ▶ Oct. Opened Hibarigaoka PARCO

1994 ▶ Mar. Opened Ikebukuro P'PARCO
Apr. Opened Hiroshima PARCO

1996 ▶ Apr. Expanded floor space of Matsumoto PARCO

1997 ▶ Mar. Opened Utsunomiya PARCO

1998 ▶ Nov. Opened Nagoya PARCO South Building

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.

2001 ▶ Jun. NEUVE A CO., LTD. started operations
Sept. Opened Hiroshima PARCO New Building

2002 ▶ Apr. Opened Shibuya ZERO GATE

2003 ▶ May Adopted "Company with Committees System" (later renamed "Company with Three Committees" System)

2005 ▶ Feb. Opened Pedi SHIODOME

2006 ▶ Mar. Credit card PEC Card renamed as PARCO Card

2007 ▶ Mar. Opened Shizuoka PARCO
Oct. Opened Urawa PARCO

2008 ▶ Aug. Opened Sendai PARCO

2010 ▶ Mar. Opened Fukuoka PARCO

2011 ▶ Apr. Complex format of Shibuya ZERO GATE changed

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

2014 ▶ Oct. Opened Nagoya ZERO GATE
Nov. Opened Fukuoka PARCO New Building

2015 ▶ Mar. Expanded floor space of Fukuoka PARCO
Opened Nagoya PARCO midi

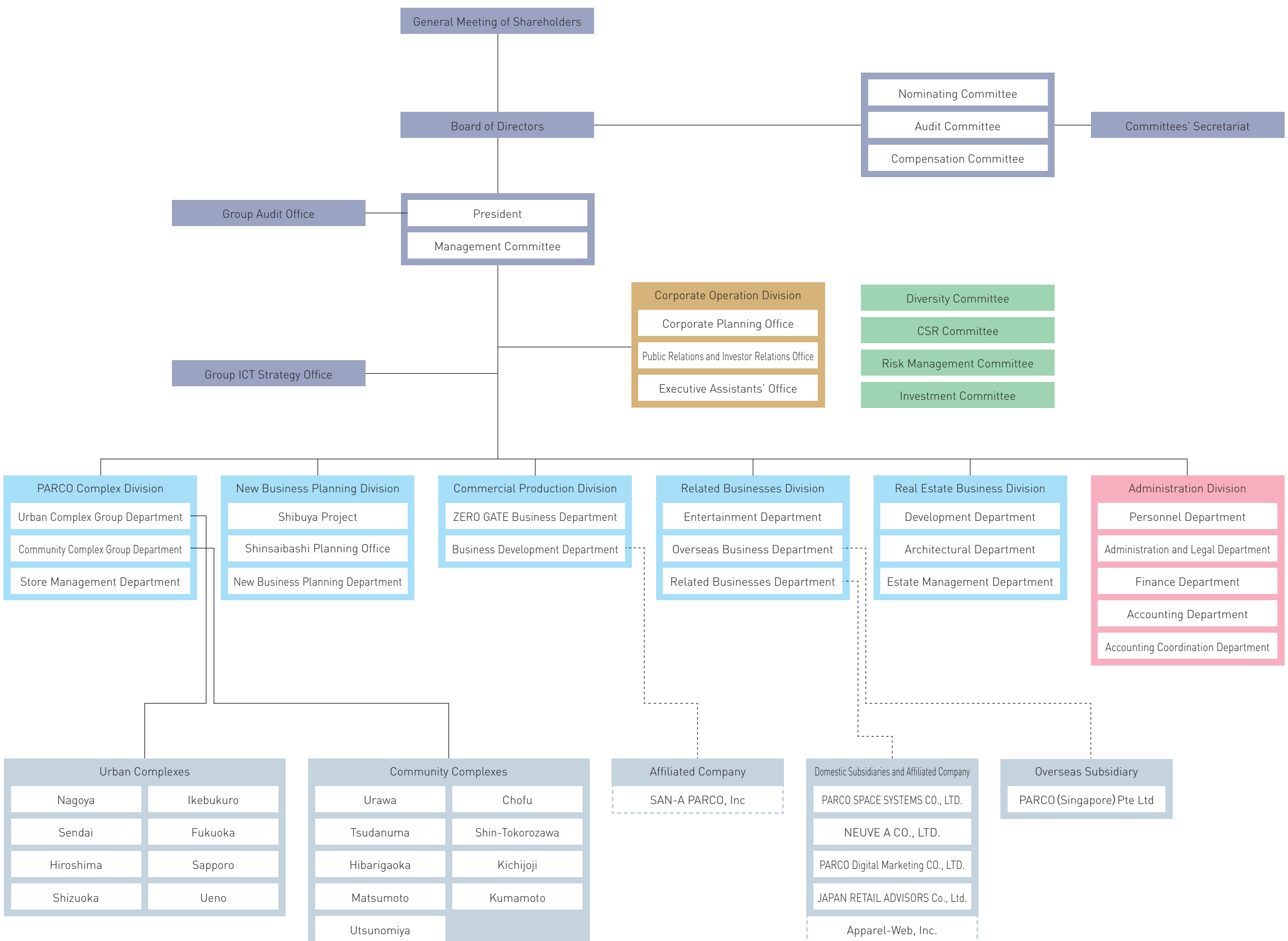
2016 ▶ Feb. Opened Sapporo ZERO GATE
Jul. Opened Sendai PARCO2
Aug. Temporarily closed Shibuya PARCO (PART 1, PART 3) for redevelopment
Sept. Opened Hiroshima ZERO GATE2

2017 ▶ Mar. Changed company name from PARCO-CITY CO., LTD. to PARCO Digital Marketing CO., LTD.
Nov. Opened PARCO_ya Ueno
Opened Kyoto ZERO GATE

2018 ▶ Mar. Opened Harajuku ZERO GATE

Organization Chart

To realize the PARCO Group's Long-term Vision, we will promote our Medium-term Business Plan (FY2017-2021) and 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 through our three main social roles of "Incubation," "Urban Revitalization," and "Trends Communication."



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, Shinsaibashi 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, 2018)

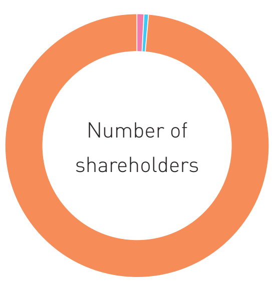
Number of shares authorized	320,000,000
Number of shareholders	26,754
Number of shares issued and outstanding	101,462,977
Stock Listings	The Tokyo Stock Exchange 1st Section
Independent Auditor	KPMG AZSA LLC

Principal Shareholders

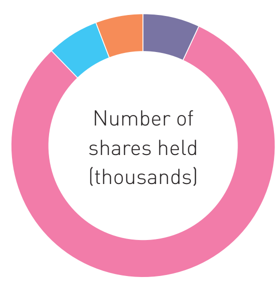
Name	Number of shares held (thousands)	Shareholding ratio (%)
J. FRONT RETAILING Co., Ltd.	65,922	64.98
Aeon Co., Ltd.	8,272	8.15
Credit Saison Co., Ltd.	7,771	7.66
Japan Trustee Services Bank, Ltd. (Trust Account)	2,938	2.90
GOVERNMENT OF NORWAY	946	0.93
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	936	0.92
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	930	0.92
Japan Trustee Services Bank, Ltd. (Trust Account 9)	684	0.67
The Master Trust Bank of Japan, Ltd. (Trust Account)	440	0.43
Japan Trustee Services Bank, Ltd. (Trust Account 5)	361	0.36

*1 Shareholding ratios are calculated after deduction of treasury stock (5,369 shares).
*2 The name of The Bank of Tokyo-Mitsubishi UFJ, Ltd. was changed to MUFG Bank, Ltd. on April 1, 2018.

Breakdown of Shares by Type of Shareholder

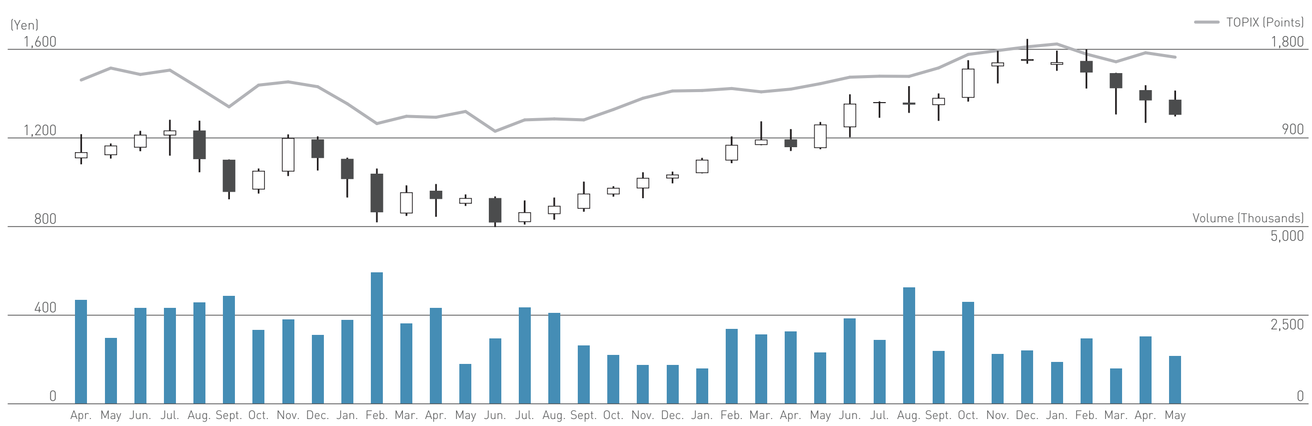


Japanese financial institutions and Japanese securities companies	47	0.2%
Other Japanese companies	275	1.0%
Foreign investors	166	0.6%
Japanese individuals and others	26,265	98.2%
Treasury stock	1	0.0%



Japanese financial institutions and Japanese securities companies	7,147	7.0%
Other Japanese companies	82,217	81.0%
Foreign investors	6,446	6.4%
Japanese individuals and others	5,646	5.6%
Treasury stock	5	0.0%

Stock Performance



Information on PARCO's Website

Store and Entertainment Information (Japanese)

www.parco.jp

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.

FACTBOOK 2018

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 transaction volume data by store is disclosed with year-on-year comparisons.
Financial Indicators			View past data on key performance indicators.
IR Library	Financial Reports	Financial Results	Check here for disclosure of quarterly financial results.
		FACTBOOK	The FACTBOOK 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.

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

Printed in Japan