

Quarterly Report FY 2017 Q2

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1 *Comments from the President*

In the second quarter of fiscal 2017, operating profit and profit exceeded forecasts despite decreases in revenue and profit over the previous year caused by the temporary closure of Shibuya PARCO and closure of Chiba PARCO.

In our Medium-term Business Plan for 2017-2021, we outlined our business portfolio innovation as the direction we will take to develop our business and achieve future growth. In line with this, we are continuing to advance choice and focus to bolster PARCO's business.

In development initiatives, we announced a new development project in the North Building of Daimaru Shinsaibashi in September. The new PARCO store will be opened in the Shinsaibashi area of Osaka, an area with no current PARCO presence. Furthermore, of the 12 development projects targeted in our Medium-term Business Plan, 8 are already underway.

In addition, new construction of Sannomiya ZERO GATE has been decided, and steady progress has been made in the new Shibuya PARCO and across all development projects. Otsu PARCO was closed at the end of August, after over 20 years of operation. The second half of fiscal 2017 will see the opening of the new PARCO store PARCO_ya in Ueno, and Kyoto ZERO GATE is set to open its doors in a popular Kyoto commercial district.

PARCO Group will continue to pursue these initiatives and is pursuing an aggressive forward-looking strategy while further strengthening trend communication and shop selection, and developing the captivating stores that customers from all over the world have come to associate with us. We ask for the continued support of the PARCO Group's many stakeholders in our activities moving forward.

Performance Overview

Consolidated operating revenue for the period declined due to sluggish operating revenue as a result of the decrease in the number of stores in the Shopping Complex Business. While operating profit and profit attributable to owners of parent (hereafter 'profit') decreased YoY, both exceeded forecasts.

- Operating revenue decreased due to effects from the temporary closure of Shibuya PARCO and the closure of Chiba PARCO, and despite increases from the opening of Sendai PARCO 2 in July 2016.
- Operating profit decreased 31.4% following effects from the sale of real estate in connection with the reconstruction of Shibuya PARCO in the previous year. Profit decreased 21.2%, but exceeded forecasts.
- Full-year forecasts for FY2017 were revised upward despite slight decreases in operating profit in Q2 due to steady performance in operating profit and profit expected at urban stores and cost optimization across stores.

PARCO has adopted International Financial Reporting Standards (IFRS) in place of Japanese accounting standards (Japanese GAAP) from the first quarter of FY2017.

New store openings and store closures

2017	2018	2019	2021
PARCO_ya (Tokyo Ueno)	Scheduled opening of Harajuku ZERO GATE * ₁	Scheduled opening of Kinshicho Ekimae property (Tokyo)	Scheduled opening of New store in the North Building of Daimaru Shinsaibashi (Osaka)
Scheduled opening of Kyoto ZERO GATE * ₁	Scheduled opening of Sannomiya ZERO GATE (Kobe) * ₁	Scheduled completion of the Urasoe West Coast Development Project (Okinawa) * ₂	
		Scheduled completion of the The new Shibuya PARCO (Udagawa-cho 15 Development Project)	
Otsu PARCO (Closed in August, 2017)			

*1 provisional name

*2 PARCO and SAN-A establish a joint corporation for the operation of a new shopping complex business in Okinawa prefecture.

Consolidated Results

Millions of yen

For the Period	FY 2017	FY 2016	Change	Change	FY 2016	FY 2016
	2Q	2Q			Ref:2Q	4Q
	IFRS	IFRS			Japanese GAAP	IFRS
Operating revenue(IFRS)/Net sales (Japanese GAAP)	¥ 45,230	¥ 47,168	¥(1,938)	(4.1%)	¥ 134,029	¥ 93,780
Operating gross profit	15,153	16,505	(1,352)	(8.2%)	22,999	31,302
Operating profit(IFRS)/Operating income(Japanese GAAP)	6,666	9,716	(3,049)	(31.4%)	6,504	14,203
Profit(IFRS)/Net income(Japanese GAAP)	4,469	5,672	(1,202)	(21.2%)	3,751	8,795
Cash flows from operating activities *1	24,043	5,914	18,129	-	6,306	-
Cash flows from investing activities *1	(4,462)	(6,095)	1,633	-	(6,488)	-
Cash flows from financing activities *1	(11,821)	(780)	(11,040)	-	(780)	-
EBITDA *1,2	9,398	12,322	(2,923)	(23.7%)	9,131	-
At the Period End *3						
Total assets	260,803	-	11,997	-	-	248,806
Net assets	123,842	-	3,242	-	-	120,600
Interest-bearing debt	47,665	-	(10,496)	-	-	58,162
Per Share Data						
Profit	44.05	55.90	(11.86)	(21.2%)	36.97	86.69

Consolidated Results by Segment *4,5

	Millions of yen		
	FY 2017 2Q	Change	Change
Shopping Complex Business (PARCO, PARCO (Singapore))			
Operating revenue	¥ 25,513	¥ (1,970)	(7.2%)
Segment profit	6,617	(2,638)	(28.5%)
Retail Business (NEUVE A)			
Operating revenue	10,597	193	1.9%
Segment loss	(192)	(218)	-
Space Engineering and Management (PARCO SPACE SYSTEMS)			
Operating revenue	10,273	(345)	(3.3%)
Segment profit	299	(93)	(23.8%)
Other Business (PARCO Digital Marketing, PARCO's Entertainment Business)			
Operating revenue	2,781	(240)	(8.0%)
Segment loss	(55)	(102)	-
Total			
Operating revenue	49,165	(2,362)	(4.6%)
Segment profit	6,669	(3,053)	(31.4%)
Consolidated (after adjustment)			
Operating revenue	45,230	(1,938)	(4.1%)
Segment profit	6,666	(3,049)	(31.4%)

	Millions of yen		
	FY 2017 2Q	change	Change
Selling, general and administrative expenses			
Total SG&A	¥ 9,424	¥ 280	3.1%
Personnel	3,998	43	1.1%
Lease/rental	1,461	78	5.7%
Advertising	334	29	9.7%
Agency services	568	16	3.0%
Depreciation	426	21	5.4%
Taxes and dues	399	89	28.7%

	Millions of yen	
	FY 2017 2Q	change
Finance income and costs		
Share of loss of entities accounted for using equity method		
Finance income	¥ 62	¥ (24)
Interest income	60	¥ (24)
Finance costs (Interest paid)	157	(17)
Share of loss of entities accounted for using equity method		
	18	(306)

	Millions of yen		
	FY 2017 2Q	change	Main factors
Other income and expense			
Other income	¥ 1,578	(1,424)	
Compensation income	975	975	Compensation related to Shibuya redevelopment
Gain on sales of non-current assets	0	(2,843)	Sale of land related to Shibuya redevelopment
Other income and expense			
Loss on disposal of noncurrent assets	640	(7)	
Loss on disposal of noncurrent assets	334	(46)	Renovation of PARCO stores
Impairment loss	240	72	Impairment related to NEUVE A stores

*1 Figures for consolidated statements of cash flows for Q4 FY2016 and EBITDA(IFRS) are not given as they are under accounting audit.

*2 EBITDA (IFRS) in the table above refers to operating income plus depreciation and amortization (the depreciation and amortization expenses listed in the consolidated statements of cash flows).

*3 Change in total assets, net assets, and interest-bearing debt was calculated in comparison with figures for FY 2016 4Q (IFRS).

*4 Segment profit and loss is adjusted to operating profit in the quarterly consolidated statements of income.

*5 PARCO's Entertainment Business earnings are included in Other Business.

Non-consolidated Results

Millions of yen

For the Period	FY 2017	FY 2016	Change	Change	FY 2016	FY 2016
	2Q	2Q			Ref: 2Q	4Q
	IFRS	IFRS			Japanese GAAP	IFRS
Operating revenue(IFRS)	¥ 27,828	¥ 29,976	¥ (2,148)	(7.2%)	¥ 119,880	¥ 58,991
Operating gross profit	9,547	10,775	(1,228)	(11.4%)	17,717	19,803
Operating profit	6,522	7,576	(1,054)	(13.9%)	5,943	11,338
Profit	4,682	4,750	(68)	(1.4%)	2,836	7,380
At the Period End *1						
Total assets	257,168	-	11,365	-	-	245,802
Net assets	123,062	-	3,441	-	-	119,621

Selling, general and administrative expenses	Millions of yen		
	FY 2017 2Q	change	Change
Total SG&A	¥ 4,155	¥ 199	5.0%
Personnel	1,844	102	5.9%
Lease/rental	269	24	9.9%
Advertising	142	26	22.4%
Agency services	483	(0)	(0.1%)
Depreciation	197	4	2.4%
Taxes and dues	277	60	27.9%

Finance income and costs	Millions of yen	
	FY 2017 2Q	change
Finance income	¥ 346	¥ 241
Interest income	61	(23)
Dividend income *2	284	265
Finance costs (Interest paid)	161	(16)

PARCO Tenant Transaction Volume by Store *2	Millions of yen	
	FY 2017 2Q	Change
Urban store group		
Sapporo PARCO	6,593	(0.6%)
Sendai PARCO	9,882	27.4%
Ikebukuro PARCO	14,137	6.4%
Shibuya PARCO *4	503	(94.0%)
Shizuoka PARCO	5,319	0.3%
Nagoya PARCO	16,723	(9.4%)
Hiroshima PARCO	7,815	(4.1%)
Fukuoka PARCO	10,959	4.0%
8 store total	71,936	(8.3%)
Community store group		
Utsunomiya PARCO	1,545	(18.8%)
Urawa PARCO	12,615	4.5%
Shin-Tokorozawa PARCO	5,342	4.0%
Tsudanuma PARCO	5,040	(0.2%)
Hibarigaoka PARCO	4,149	1.3%
Kichijoji PARCO	4,878	3.6%
Chofu PARCO	9,457	1.6%
Matsumoto PARCO	3,865	(1.3%)
Otsu PARCO	2,297	(3.9%)
Kumamoto PARCO	2,728	(9.9%)
10 store total	51,920	(4.9%)
Total *5	123,857	(7.0%)
Existing store total *6	120,072	(0.5%)

Other income and expense	Millions of yen		
	FY 2017 2Q	change	Main factors
Other income	¥ 1,567	¥ (36)	
Compensation income	975	975	Compensation related to Shibuya redevelopment
Gain on sales of non-current assets	0	(1,465)	Sale of land related to Shibuya redevelopment
Other income and expense	436	(410)	
Loss on disposal of noncurrent assets	333	(50)	Renovation of PARCO stores
Impairment loss	35	(2)	Impairment of Utsunomiya PARCO

*1 Change in total assets, and net assets was calculated in comparison with figures for FY 2016 4Q (IFRS).

*2 Dividend income from subsidiaries

*3 Tenant transaction volume is a measure of the total number of transactions conducted by tenants at PARCO stores and is used as an indicator of overall store sales performance. Figures for the previous year have been calculated based on identical standards.

*4 As of August 7, 2016, Shibuya PARCO has been closed temporarily

*5 Previous-year figures used to calculate year-on-year change include Chiba PARCO (closed Nov. 30, 2016)

*6 Existing store total does not include sales from Sendai PARCO 2 (opened Jul. 1, 2016) and Shibuya PARCO.

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Review of PARCO Store Operations

Sales by item	Change	Paying customers, Average spend per customer	Change
Womenswear	(7.7%)	Paying customers	0.2%
Menswear	(4.0%)	Average spend per customer	(0.7%)
General clothing	(1.2%)		
Clothing	(5.5%)		
Shoes	(6.5%)		
Bags	(3.5%)		
Accessories	(3.7%)		
Cosmetics	5.0%		
Personal items	(1.8%)		
Sundry goods	7.3%		
Foods	(2.2%)		
Restaurants	4.9%		
Other (service, etc.)	4.7%		

	Millions of yen		
	FY 2017 2Q	Change	Share in sales
Credit card sales amount *1			
Credit card	¥52,711	1.4%	44.1%
PARCO Card	27,179	0.1%	22.7%

Renovation			
Number of sections			114
Of which are new store sections			84
Renovated area	Approx.		18,000m ²
Zone sale YoY comparison			27.5%

Total tenant transaction volume results (Change) *2	Mar.	Apr.	May	Jun.	Jul.	Aug.
Total stores	(6.0%)	(5.9%)	(5.8%)	(7.4%)	(11.8%)	(3.9%)
Existing stores	(1.1%)	0.5%	(0.5%)	(0.2%)	(3.0%)	1.2%

	Sapporo PARCO	Ikebukuro PARCO	Fukuoka PARCO	Nagoya PARCO	Total stores	
Ref: Purchases by foreign-issued credit cards in main stores *3						
YoY change in purchases		7.2%	43.8%	69.3%	128.9%	35.6%
Share of total sales of each store accounted		11.6%	3.7%	2.5%	1.2%	1.6%
YoY change in share of total sales of each store accounted		+0.6%	+0.9%	+0.9%	+0.7%	+0.5%

Existing stores totals for sales by item, paying customers, average spend per customer, and total tenant transaction volume results do not include sales from Sendai PARCO 2 and Shibuya PARCO.

*1 Credit card sales amount totals do not include figures from Shibuya PARCO and Sendai PARCO 2.

*2 Figures of renovation exclude Shibuya PARCO and Otsu PARCO.

*3 Purchases by foreign-issued credit cards in main stores do not include figures from Shibuya PARCO.

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Major Companies of PARCO Group

	Millions of yen				
	PARCO	NEUVE A	PARCO SPACE SYSTEMS	PARCO Digital Marketing	PARCO (Singapore)
For the Period					
Operating revenue	27,828	10,597	10,273	398	72
Operating profit	6,522	(192)	299	39	(30)
Profit	4,682	(128)	207	23	(30)
Ownership ratio by PARCO	-	100%	100%	100%	100%
NEUVE A		Revenue increased due to an increase in the number of stores, but profit decreased due to sluggish performance at highly profitable businesses.			
PARCO SPACE SYSTEMS		Despite decrease in revenue and profits following large-scale orders in the previous year, forecasts were exceeded as a result of several new unplanned orders.			
PARCO Digital Marketing following		Revenue decreased as a result of the withdrawal of the human resources business, but profit increased acquisitions of new clients.			
PARCO (Singapore) consultation for		Projects including the Japanese restaurant zone progressed smoothly. Orders were received for design a commercial facility in Ho Chi Minh City, Vietnam.			

New Forecasts

Millions of yen

	FY 2017	FY 2016	Change	Change	FY 2017	Change
	4Q	4Q			4Q	
Consolidated FY 2017 (IFRS)	Revised forecast			Initial forecast		
Operating revenue	94,000	93,780	0.2%	219	¥95,100	▲1,100
Operating profit	11,600	14,203	(18.3%)	▲2,603	11,500	100
Profit attributable to owners of parent	7,500	8,795	(14.7%)	▲1,295	7,400	100
Basic earnings per share	73.92	86.69	-	-	72.94	-

Millions of yen

	FY 2017	FY 2016	Change	Change	FY 2017	Change
	4Q	4Q			4Q	
Non-Consolidated FY 2017 (IFRS)	Revised forecast			Initial forecast		
Operating revenue	57,492	58,991	(2.5%)	▲1,499	58,310	▲818
Operating profit	10,978	11,338	(3.2%)	▲360	10,599	378
Profit	7,560	7,380	2.4%	180	7,146	413

PARCO
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