

Quarterly Report FY 2017 Q4

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1 *Comments from the President*

In Fiscal 2017, despite a decrease in revenue and profit caused by the temporary closure of Shibuya PARCO and the closure of Chiba PARCO in the previous FY, and the closure of Otsu PARCO in August 2017 in the Shopping Complex Business, operating and net income surpassed targets due to the reversal of allowance from the closed Otsu Parco and the contribution of newly opened stores.

Fiscal 2017 was the first year of our Medium-term Business Plan (FY2017-FY2021), and in alignment with one of our core tactics, developing commercial real estate, we opened PARCO_ya in Ueno in November to a strong start, with the upper floors of Kyoto ZERO GATE opening in the same month, followed by Harajuku ZERO GATE in March. We also announced the opening of the North Building of Daimaru Shinsaibashi and the Kinshicho Ekimae project as new development initiatives. In addition to the newly announced Kawasaki ZERO GATE, three development projects out of the twelve targeted in the Medium-term Business Plan have already opened, and plans for six projects, including the redevelopment of Shibuya PARCO, are progressing smoothly.

As part of our strategy to evolve the store brand, we are engaging in activities to support the increase in shop services for customers and to strengthen the trend communication and sales capacity of the brands and tenants. As part of this, we have introduced a system to gather information about the age, gender, and number of shoppers for use in the newly opened PARCO_ya in Ueno. We have also begun a proof-of-concept trial for robots that provide shoppers with store guidance and support tenants with inventory management.

Our efforts to expand soft content in the entertainment business were highly successful. We were able to show our in-house productions at various third-party locations, where they became major hits and generated significant attention. PARCO also acquired the domestic distribution rights for overseas productions which have received Academy Awards, award nominations, and international critical acclaim. In March, we also announced the renewal opening of Cine Quinto, a mini theatre in Shibuya, in July.

In fiscal 2018, the second year of our Medium-term Business Plan, we anticipate earnings in line with forecasts. The effect of opening new stores, including ZERO GATE complexes, is expected to boost revenue, and operating income is forecasted to slightly increase due to the closure of Otsu PARCO in fiscal 2017 and the increase of development costs from fiscal 2018 and onwards.

The increase in dividends per share of JPY 1 since fiscal 2017 has resulted in an annual dividend forecast of JPY 24 per share.

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

Targets for fiscal 2017 were achieved despite a decrease in operating profit due to declines in operating revenue and profit attributable to owners of parent ('profit') following the closure of stores in the Shopping Complex Business.

- Operating revenue decreased due to the closure of Otsu PARCO at the end of August, the temporary closure of Shibuya PARCO and the closure of Chiba PARCO in the previous FY, and poor sales of clothing at existing PARCO stores. This was despite contributions from the opening of Sendai PARCO 2 in July 2016, the opening of PARCO_ya Ueno in November 2017, and an increase in construction orders for PARCO SPACE SYSTEMS.
- Operating profit and profit decreased due to the impact of the sale of fixed assets in connection with the redevelopment of Shibuya PARCO in the previous year. Nevertheless, targets were exceeded due to the reversal of impairment loss from the closure of Otsu Parco.

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
<p>PARCO_ya (Ueno) (Opened in November, 2017)</p>	<p>Harajuku ZERO GATE (Opened in March, 2018)</p>	<p>Scheduled opening of Kinshicho Ekimae property (Tokyo)</p>	<p>Scheduled opening of New store in the North Building of Daimaru Shinsaibashi (Osaka)</p>
<p>Kyoto ZERO GATE (Upper floors opened in November, 2017)</p>	<p>Scheduled opening of Sannomiya ZERO GATE (Kobe) *₁</p>	<p>Scheduled completion of the Urasoe West Coast Development Project (Okinawa) *₂</p>	
		<p>Kawasaki ZERO GATE (Kawasaki) *₁</p>	
		<p>Scheduled completion of the The new Shibuya PARCO (Udagawa-cho 15 Development Project)</p>	
<p>Otsu PARCO (Closed in August, 2017)</p>			

*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

	FY 2017	FY 2016	Change	Change
For the Period				
Operating revenue	¥ 91,621	¥ 93,780	¥ (2,159)	(2.3%)
Operating gross profit	29,263	31,302	(2,039)	(6.5%)
Operating profit	11,713	14,203	(2,490)	(17.5%)
Profit	7,809	8,795	(985)	(11.2%)
Cash flows from operating activities	21,386	7,690	13,696	-
Cash flows from investing activities	(11,552)	(4,961)	(6,591)	-
Cash flows from financing activities	(7,897)	1,210	(9,107)	-
EBITDA *1	17,372	19,502	(2,130)	(10.9%)
At the Period End				
Total assets	261,835	248,806	13,029	5.2%
Total equity	126,311	120,600	5,710	4.7%
Interest-bearing debt	52,820	58,162	(5,342)	(9.2%)
Per Share Data				
Profit	76.97	86.69	(9.72)	(11.2%)

Consolidated Results by Segment *2

	Millions of yen		
	FY 2017	Change	Change
Shopping Complex Business (PARCO, PARCO (Singapore))			
Operating revenue	¥ 51,351	¥ (2,513)	(4.7%)
Segment profit	10,964	(2,215)	(16.8%)
Retail Business (NEUVE A)			
Operating revenue	21,216	(315)	(1.5%)
Segment profit	75	(129)	(63.3%)
Space Engineering and Management (PARCO SPACE SYSTEMS)			
Operating revenue	21,399	870	4.2%
Segment profit	652	(121)	(15.6%)
Other Business (PARCO Digital Marketing, PARCO's Entertainment Business)			
Operating revenue	6,158	20	0.3%
Segment profit	53	7	17.2%
Total			
Operating revenue	100,125	(1,938)	(1.9%)
Segment profit	11,745	(2,458)	(17.3%)
Consolidated (after adjustment)			
Operating revenue	91,621	(2,159)	(2.3%)
Segment profit	11,713	(2,490)	(17.5%)

	Millions of yen		
	FY 2017	Change	Change
Selling, general and administrative expenses			
Total SG&A	¥ 18,979	¥ 474	2.6%
Personnel	8,032	(65)	(0.8%)
Lease/rental	3,013	127	4.4%
Advertising	665	85	14.7%
Agency services	1,200	48	4.2%
Depreciation	857	21	2.6%
Taxes and dues	818	273	50.2%

	Millions of yen	
	FY 2017	Change
Finance income and costs		
Share of loss of entities accounted for using equity method		
Finance income	¥ 144	¥ (24)
Interest income	142	(24)
Finance costs (Interest paid)	372	8
Share of loss of entities accounted for using equity method	29	(309)

	Millions of yen		Main factors
	FY 2017	Change	
Other income and expense			
Other income	¥ 2,853	¥ (2,113)	
Compensation income	1,951	975	Compensation related to Shibuya redevelopment
Gain on sales of non-current assets	0	(3,253)	Sale of land related to Shibuya redevelopment last year
Others	901	164	Reversal of impairment loss on closure of Otsu PARCO etc.
Other expense	1,425	(2,136)	
Loss on disposal of noncurrent assets	665	(99)	Renovation of PARCO stores
Impairment loss	497	(304)	Sannomiya ZERO GATE (Last Year) Impairment related to NEUVE A stores etc.
Loss on closure of stores	-	(1,041)	Closure of Otsu Parco last year
Others	261	(690)	Sale of land related to Shibuya PARCO last year etc.

*1 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).

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

Non-consolidated Results

Millions of yen

	FY 2017	FY 2016	Change	Change
For the Period				
Operating revenue	¥ 56,462	¥ 58,991	(2,528)	(4.3%)
Operating gross profit	17,766	19,803	(2,037)	(10.3%)
Operating profit	11,016	11,338	(321)	(2.8%)
Profit	7,680	7,380	300	4.1%
At the Period End				
Total assets	258,562	245,802	12,759	5.2%
Net assets	125,089	119,621	5,467	4.6%

	Millions of yen		
	FY 2017	Change	Change
Selling, general and administrative expenses			
Total SG&A	¥ 8,428	¥ 493	6.2%
Personnel	3,737	90	2.5%
Lease/rental	602	101	20.3%
Advertising	291	92	46.7%
Agency services	1,003	11	1.1%
Depreciation	408	9	2.4%
Taxes and dues	598	221	58.5%

	Millions of yen	
	FY 2017	Change
Finance income and costs		
Finance income	¥ 432	¥ 242
Interest income	147	(22)
Dividend income *1	284	265
Finance costs (Interest paid)	384	10

PARCO Tenant Transaction Volume by Store *2		
	Millions of yen	
	FY 2017	Change
Urban store group		
Sapporo PARCO	13,421	(2.2%)
Sendai PARCO	20,030	10.1%
Ikebukuro PARCO	28,458	2.7%
Shibuya PARCO *3	1,138	(87.4%)
PARCO_ya Ueno *4	2,265	-
Shizuoka PARCO	10,600	(1.6%)
Nagoya PARCO	34,671	(9.4%)
Hiroshima PARCO	16,719	(1.6%)
Fukuoka PARCO	22,243	2.6%
9 store total	149,549	(4.4%)
Community store group		
Utsunomiya PARCO	3,061	(17.8%)
Urawa PARCO	24,618	1.3%
Shin-Tokorozawa PARCO	10,614	2.4%
Tsudanuma PARCO	10,682	7.8%
Hibarigaoka PARCO	8,162	1.8%
Kichijoji PARCO	9,619	3.2%
Chofu PARCO	18,576	0.1%
Matsumoto PARCO	7,278	(9.2%)
Otsu PARCO *5	2,297	(50.8%)
Kumamoto PARCO	4,989	(20.1%)
10 store total	99,901	(7.9%)
Total *6	249,451	(5.8%)
Existing store total *7	237,466	(1.7%)

	Millions of yen		
	FY 2017	Change	Main factors
Other income and expense			
Other income	¥ 2,837	¥ (486)	
Compensation income	1,951	975	Compensation related to Shibuya redevelopment
Gain on sales of non-current assets	0	(1,606)	Sale of land related to Shibuya redevelopment last year
Others	885	144	Reversal of impairment loss on closure of Otsu PARCO etc.
Other expense	1,158	(2,694)	
Loss on disposal of noncurrent assets	667	(96)	Renovation of PARCO stores
Impairment loss	235	(346)	Sannomiya ZERO GATE (Last Year)
Loss on closure of stores	-	(1,041)	Closure of Otsu Parco last year
Others	255	(1,210)	Sale of land related to Shibuya PARCO last year etc.

*1 Dividend income from subsidiaries

*2 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.

*3 As of August 7, 2016, Shibuya PARCO has been closed temporarily. *4 PARCO_ya Ueno was opened November 4, 2017

*5 Otsu PARCO was closed August 31, 2017

*6 Previous-year figures used to calculate year-on-year change include Chiba PARCO (closed November 30, 2016)

*7 Existing store total does not include sales from Shibuya PARCO, Sendai PARCO 2 (opened July 1, 2016), Otsu PARCO and PARCO_ya Ueno.

Review of PARCO Store Operations

Sales by item (Existing store)	Change	Paying customers, Average spend per customer	Change
Womenswear	(9.3%)	Paying customers	(0.3%)
Menswear	(6.8%)	Average spend per customer	(1.4%)
General clothing	(1.7%)		
Clothing	(6.4%)		
Shoes	(7.1%)		
Bags	(7.4%)		
Accessories	(6.0%)		
Cosmetics	4.8%		
Personal items	(3.4%)		
Sundry goods	4.9%		
Foods	0.3%		
Restaurants	2.0%		
Other (service, etc.)	4.7%		

Millions of yen			
	FY 2017	Change	Share in sales
Credit card sales amount *1			
Credit card	¥ 109,138	(0.4%)	44.8%
PARCO Card	55,430	(2.4%)	22.8%

Renovation *2	
Number of sections	289
Of which are new store sections	174
Renovated area	Approx. 35,000m ²
Zone sale YoY comparison	26.7%

Total tenant transaction volume results (Change) *3	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%
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.
Total stores	(6.2%)	(11.2%)	(4.7%)	(1.5%)	(3.0%)	(1.3%)
Existing stores	(1.6%)	(6.5%)	(1.6%)	(2.3%)	(3.9%)	(1.8%)
	Sapporo PARCO	Ikebukuro PARCO	Fukuoka PARCO	Nagoya PARCO	Existing store Total	

Ref: Purchases by foreign-issued credit cards in main stores *4						
YoY change in purchases		3.7%	25.2%	54.2%	138.2%	25.1%
Share of total sales of each store accounted		12.2%	3.9%	2.7%	1.3%	1.7%
YoY change in share of total sales of each store accounted		+0.7%	+0.7%	+0.9%	+0.8%	+0.1%

Existing store total does not include sales from Shibuya PARCO, Sendai PARCO 2, Otsu PARCO and PARCO_ya Ueno.

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

*2 Figures of renovation exclude Shibuya PARCO, Otsu PARCO and PARCO_ya Ueno.

*3 Existing stores shows a monthly comparison for stores (buildings) that generated business results in the same month of the previous year.

*4 Purchases by foreign-issued credit cards in main stores do not include figures from Shibuya PARCO, Otsu PARCO and PARCO_ya Ueno.

Major Companies of PARCO Group

For the Period	Millions of yen				
	PARCO	NEUVE A	PARCO SPACE SYSTEMS	PARCO Digital Marketing	PARCO (Singapore)
Operating revenue	¥ 56,462	¥ 21,216	¥ 21,339	¥ 882	¥ 169
Operating profit	11,016	75	652	68	(67)
Profit	7,680	39	446	49	(66)
Ownership ratio by PARCO	-	100%	100%	100%	100%
NEUVE A	Revenue and profit fell due to a downturn in high-margin business and decrease in number of stores from the previous year.				
PARCO SPACE SYSTEMS	Revenue declined due to a gain on the sale of fixed assets recorded in the previous year and despite an increase in orders for electric work and interior.				
PARCO Digital Marketing	Profit increased due to the streamlining of SG&A expenses, a focus on web business and other factors, and despite a decrease in revenue as a result of withdrawing from the human resource business				
PARCO (Singapore) a result of	Pursued The Japanese restaurant dining zone business and other initiatives. Revenue increased and losses declined as introducing new commercial facility design consulting business in Ho Chi Minh City, Vietnam.				

	Millions of yen			
	FY 2018	Change	FY 2018	Change
	2Q		4Q	
Consolidated FY 2018				
Operating revenue	¥46,400	2.6%	¥95,100	4.8%
Operating profit	6,400	(4.0)%	11,500	0.3%
Profit	4,250	(4.9)%	7,400	(1.4)%
Basic earnings per share	41.89	-	75.89	-

	Millions of yen			
	FY 2018	Change	FY 2018	Change
	2Q		4Q	
Non-Consolidated FY 2018				
Operating revenue	¥28,843	3.6%	¥59,375	5.2%
Operating Profit	6,174	(5.3)%	10,782	(2.1)%
Profit	4,261	(9.0)%	7,272	(5.3)%

	1Q	2Q	1Q、2Q計	3Q	4Q	3Q、4Q計	4Q累計
YoY comparison of Tenant Transaction Volume							
Total stores	0.9%	1.3%	1.1%	3.9%	4.3%	4.1%	2.6%
Existing stores *	0.1%	0.6%	0.3%	2.4%	4.2%	3.3%	1.8%

* YoY comparison of Tenant Transaction Volume does not include Otsu PARCO, or PARCO_ya Ueno.

PARCO
www.parco.co.jp