

FY2017-21
PARCO Group
Medium-term Business Plan
TSE 1st Section 8251



Medium-term Business Plan for FY2017-2021

- Previous Medium-term Business Plan: target attainment
- Overview and outlook for the PARCO Group
- Three tactics for business growth
- Target figures for FY2017-2021 (Japanese GAAP & IFRS)
- Development by business

Achieved ¥12.8 billion operating income and stable income growth in FY2016.

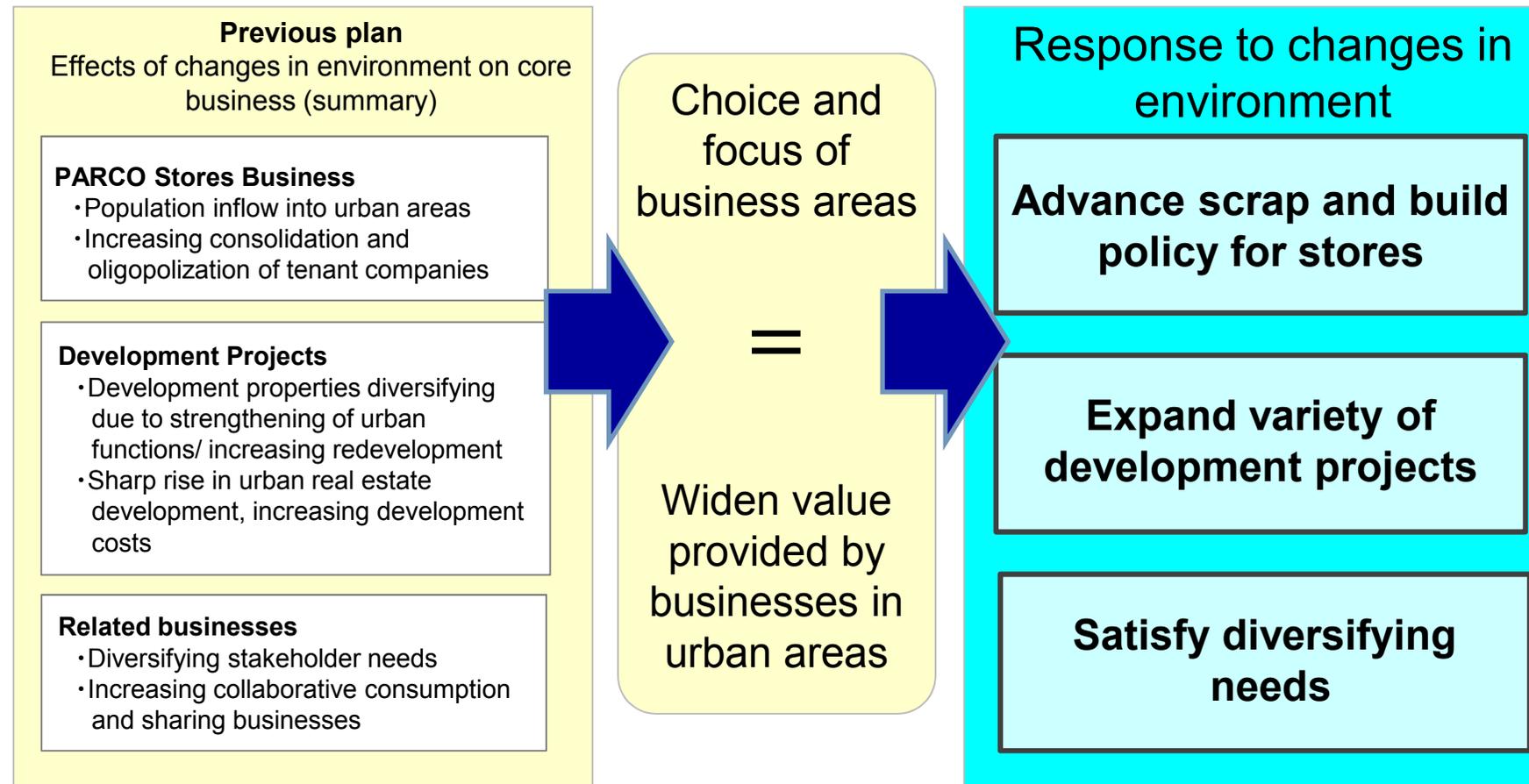
Differed from the final target for the 2014-2016 Business Plan (¥13.5 billion) by ¥0.7 billion due to changes in the consumer environment slowing growth in the PARCO Stores Business, delays to development schedules, and other factors.

| | 2013-16 change | Actions taken |
|-----------------------|--|---|
| PARCO Stores Business | -¥0.1bn ※Excluding Shibuya and Chiba stores (+¥0.8bn) | <ul style="list-style-type: none"> • Started work on Shibuya PARCO reconstruction plan • Opened new stores • Realized evolved commercial spaces • Implemented ICT schemes • Closed Chiba PARCO |
| Development Projects | +¥0.5bn | <ul style="list-style-type: none"> • Continued development of ZERO GATE • Formulated new development plan |
| Related Business | +¥0.7bn | <ul style="list-style-type: none"> • Expanded related businesses externally • Started development of overseas businesses |

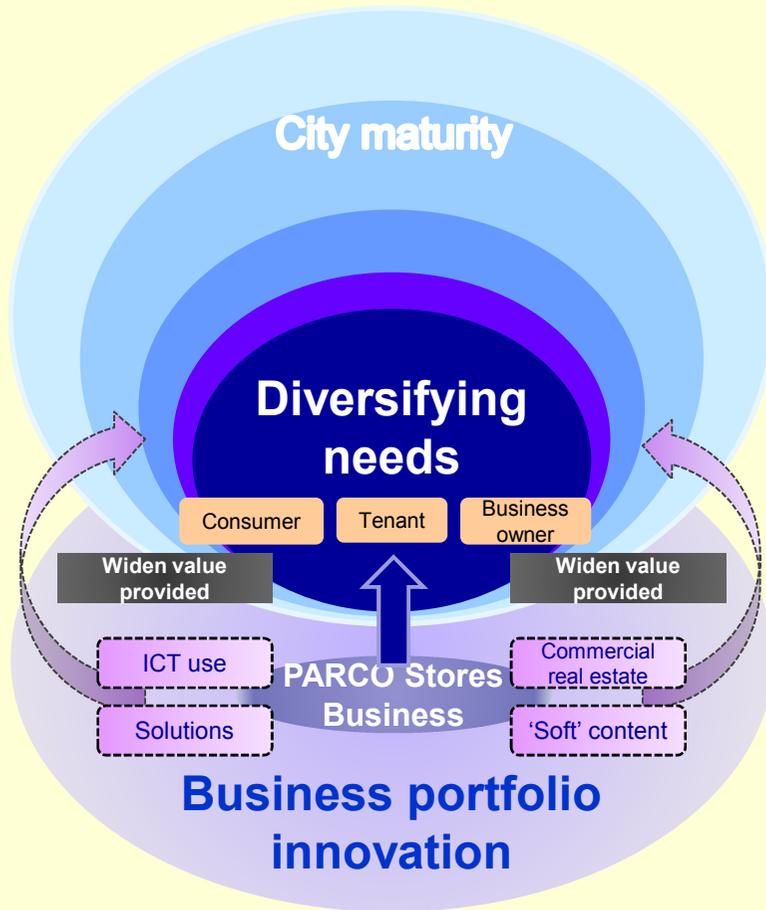
PARCO Group's Long-term Vision

To be a business group that prospers in urban markets

- designers of unique offerings for 24/7 urban life; creative drivers of urban evolution



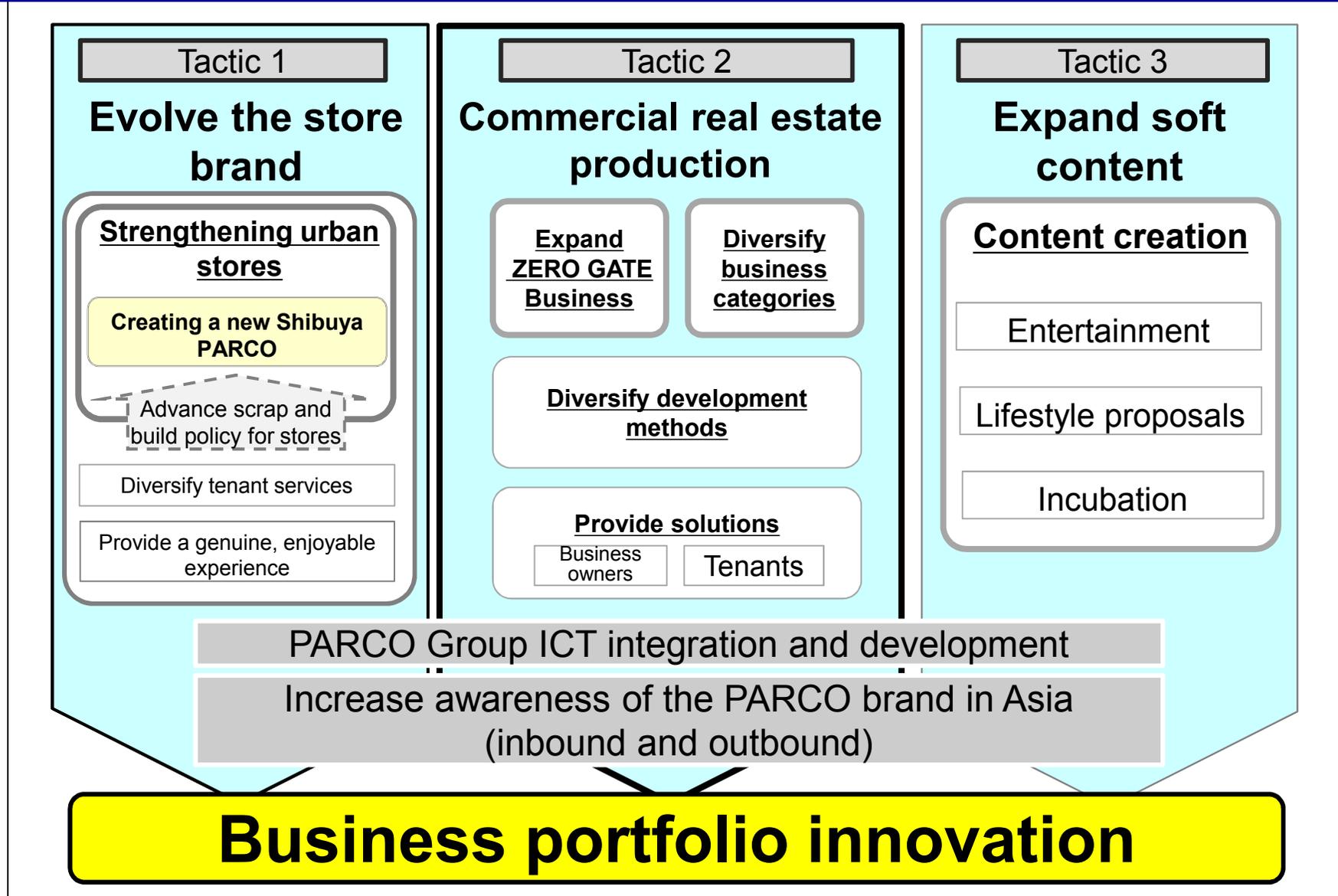
Recognize unfulfilled needs by providing value to maturing cities, primarily through the Stores Business



Contribute to ‘city maturity’ by leveraging Group businesses to meet the diversifying needs of consumers looking to enjoy an urban lifestyle and business owners in urban areas through the provision of PARCO’s unique 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.

Realizing growth by widening unique value provided to urban areas



Four directions for business restructuring and growth under the Medium-term Business plan



- 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.

Realize the J. Front Retailing Group Vision of "inventing a new happiness for daily life"

Creating a new Shibuya PARCO

- Creating a next-generation commercial space by reconstructing Shibuya PARCO, the venue that shaped the PARCO Group's unique qualities.
- Realizing new concepts that have never been applied to shopping complexes to provide evolved values such as *growth spaces for business owners*, and *new inspiration for urban consumers*.

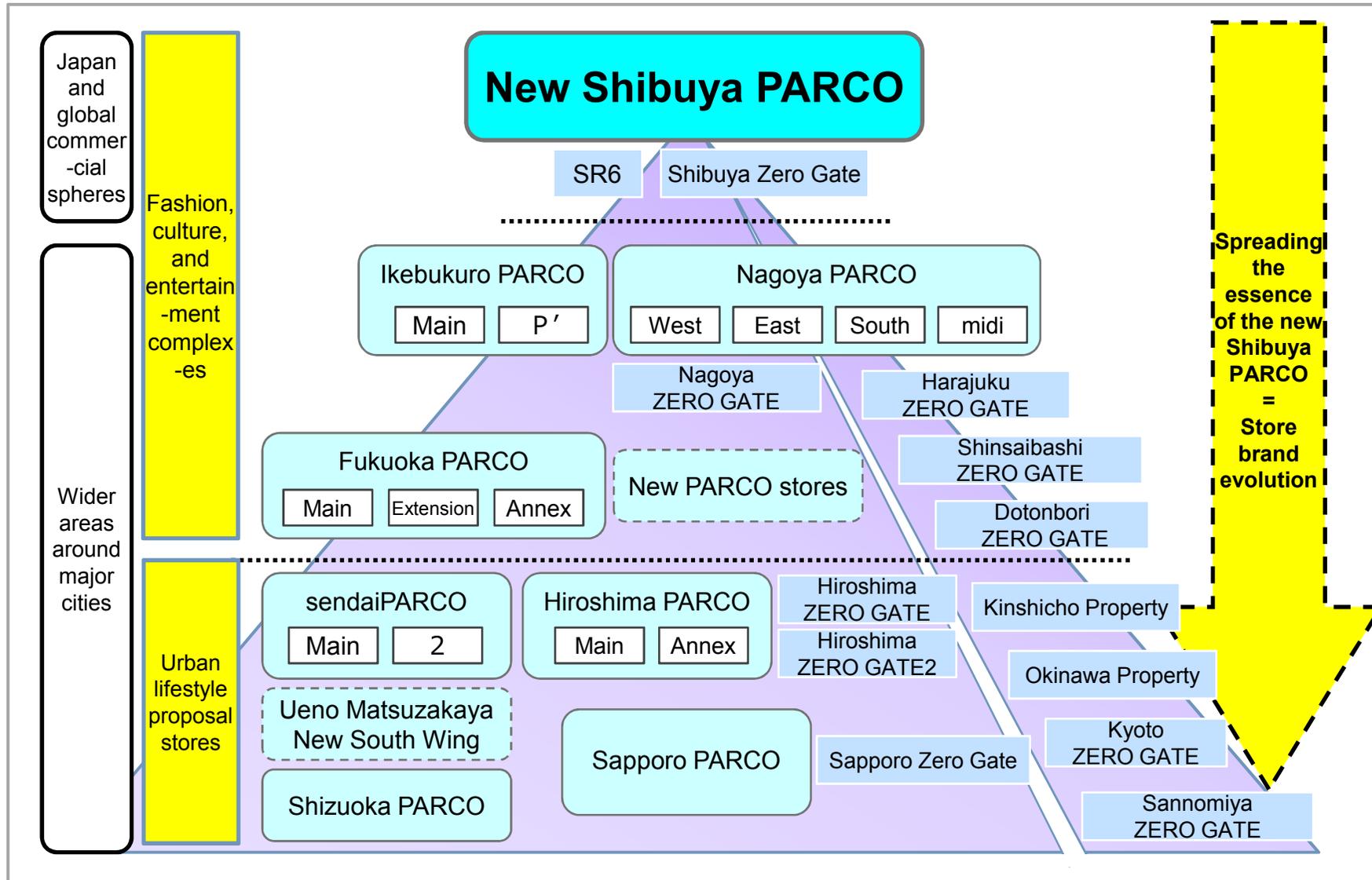


- Increase opportunities to connect with new companies through a multi-use complex building
- Create advanced tenant services in anticipation of developments in e-commerce
- Improve soft content and partnerships on the creation of Shibuya Entertainment City.
- Increase the PARCO brand's global presence as the original next-generation shopping complex.

**Realize the evolution of the PARCO Store brand by
applying new Shibuya PARCO concepts to other PARCO
urban stores.**

The new Shibuya PARCO ② – core initiative of the Medium-term Business Plan’s key tactics

Cultivate urban areas by applying original concepts from the new Shibuya PARCO



Target figures for FY2017-2021① (IFRS)

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From FY2017, International Financial Reporting Standards (IFRS) will be adopted for all consolidated financial statements

Aim: strengthen efforts to boost profit creation capabilities by improving the international comparability of financial information for stakeholders and increasing understanding and awareness of our business model by more accurately reflecting it in financial statements.

Units: billion yen

| Consolidated | FY2021 target | FY2016 results | FY2021 plan vs. FY2016 actual | |
|------------------|---------------|----------------|-------------------------------|------------|
| | | | Growth | Difference |
| Net sales | 121.4 | 94.0 | 29.1% | + 27.4 |
| Operating income | 14.7 | 14.2 | 3.5% | + 0.5 |
| Net income | 9.3 | 8.7 | 6.9% | + 0.6 |
| EBITDA* | 23.5 | 19.4 | 21.1% | + 4.1 |

Operating income margins: Japanese GAAP (vs. sales) FY2021 4.7% ⇔ IFRS (vs. operating revenue) 12.2%

Changes to major items in the statements of income

| | Japanese GAAP | IFRS |
|---|--|---|
| Net sales | Sales by commission-contract tenants Sales at PARCO Theatre, etc. | Tenant rent Sales at PARCO Theatre, etc., Expenses borne by tenants (reversal items for SG&A expenses under Japanese GAAP) |
| Cost of sales | Tenant sales minus tenant rent Expenses borne by tenants | Store-related expenses (SG&A expenses items other than reversal items) |
| Non-operating income, expenses, extraordinary profit / loss | Not included in operating income | Included in operating income (excludes net financial revenue) |

* FY2016 financial results (restated from Japanese GAAP figures) are pro-forma figures after restatement of Japanese GAAP figures to IFRS. The auditing process has not been completed and figures are subject to change.

Target figures for FY2017-2021② (IFRS)

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Reference: performance indicators for FY2016 excluding special circumstances

(Special circumstances: gain on sale of Shibuya ZERO GATE, gain on sale of Chiba parking area, loss on closure of Otsu PARCO, etc.)

Units: billion yen

| Consolidated | FY2021 target | FY2016 results | FY2021 plan vs. FY2016 actual | |
|-------------------|---------------|----------------|-------------------------------|------------|
| | | | Growth | Difference |
| Operating revenue | 121.4 | 94.0 | 29.1% | +27.4 |
| Operating income | 14.7 | 11.5 | 27.8% | +3.2 |
| Net income | 9.3 | 7.0 | 32.9% | +2.3 |
| EBITDA * | 23.5 | 16.8 | 39.9% | +6.7 |
| ROE | 6.5~7.0% | 6.1% | - | +0.4~+0.9% |
| EPS | 92.02 | 68.94 | - | +23.07 |

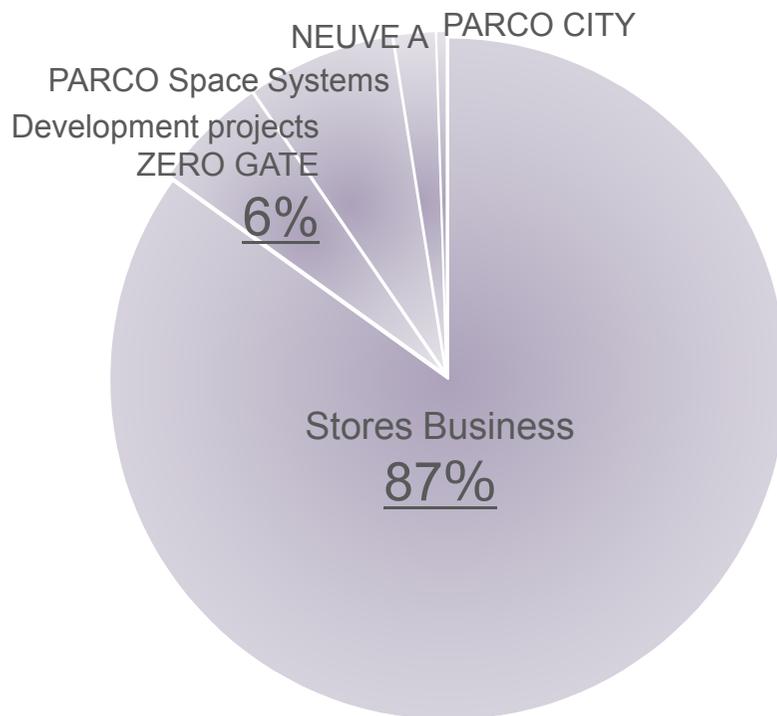
*EBITDA in this table refers to operating income plus depreciation and amortization

Target figures for FY2017-2021^③ (Reference: IFRS/operating income excluding special circumstances)

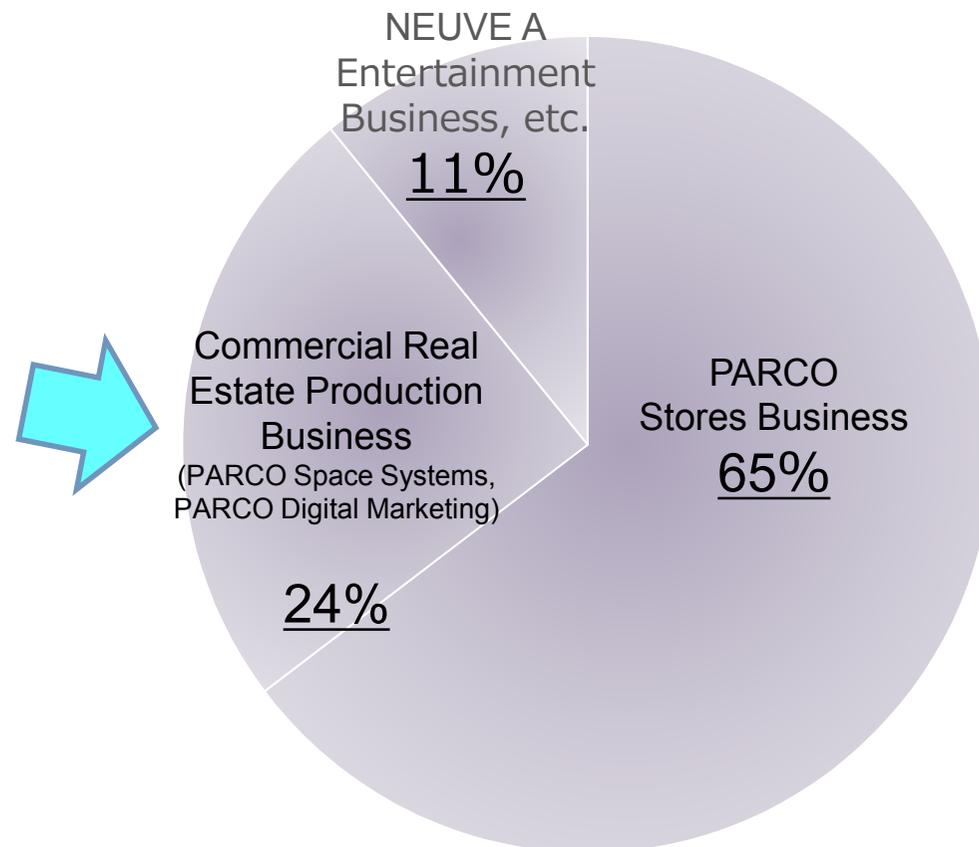
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Realizing business portfolio innovation by growing revenue from other businesses to move away from an over-reliance on Stores Business

FY2016 results
excluding special circumstances



FY2021 plan



**Promoting growth
by using 60% of ¥66.8 billion for Strategic investments.**

Units: billion yen

| | 5-yr Plan | | Description |
|-----------------------|-----------|--------|--|
| | | Weight | |
| Strategic investments | 40.4 | 60% | Shopping complex development, new business development, etc. |
| Recurring investments | 26.4 | 40% | Store renovations, related businesses, etc. |
| Total investment | 66.8 | — | |

Plan five-year total operating cash flow of 77.3 billion yen

Initiatives to consolidate business advantages and widen value provided

Focus business resources on Urban Stores

**Build – Ueno Matsuzakaya New South Wing Store (autumn 2017),
new Shibuya PARCO (autumn 2019), two other new stores**

Scrap – Otsu PARCO (August 2017)

Consumers – widen store appeal

Provide spaces for genuine new experiences – creating unique in-store value

Evolve tenant composition

- Encourage businesses providing new customer experiences to become tenants
- Collaborations with tenant companies, tenant business category development, new business category creation

Provide enjoyment that transcends previous retail experience

- Create new value to provide to consumers – fulfilling lifestyles, services, information, realizations, shared experience, etc.

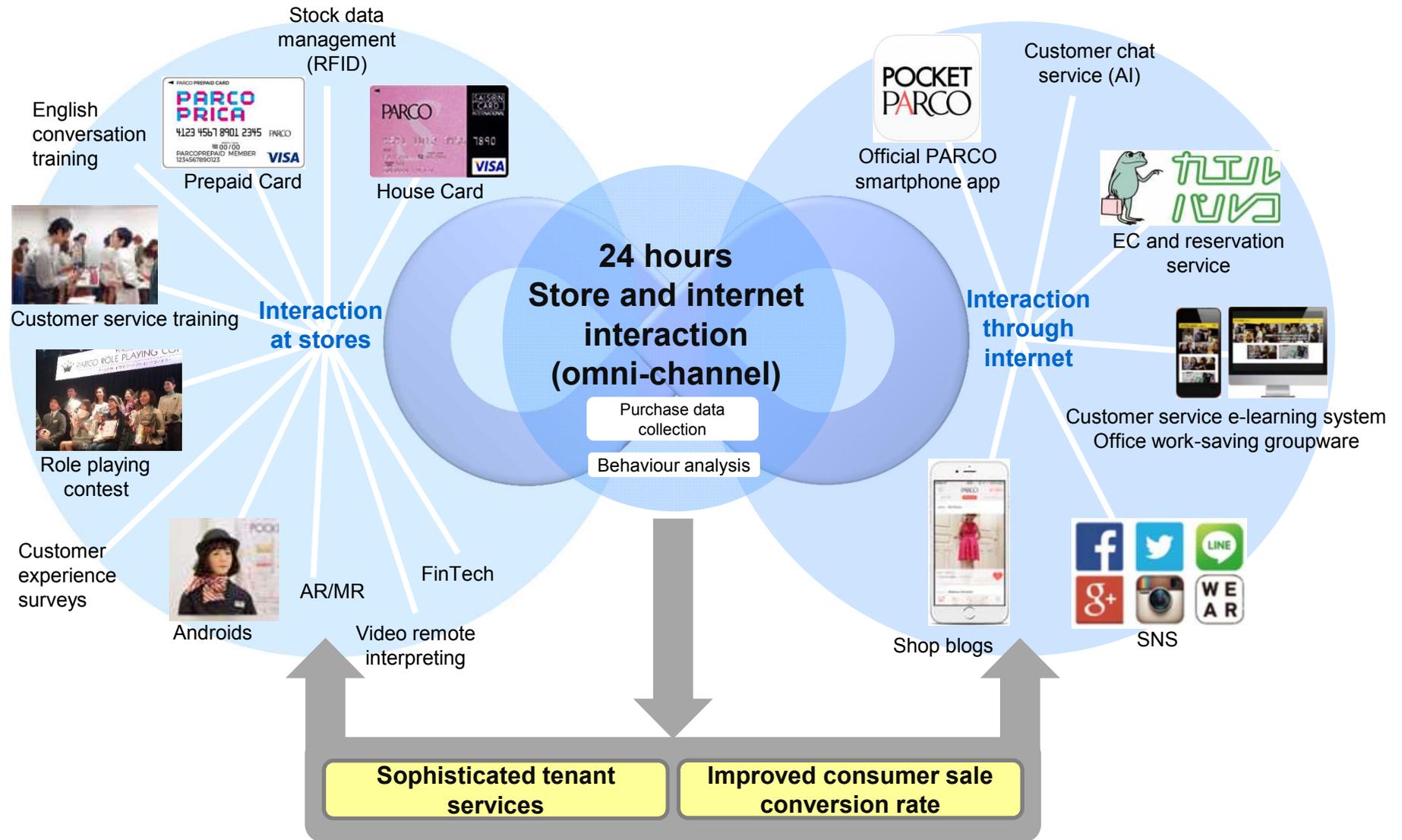
Store owners – provide unique tenant services

Provide a platform to maximize communication with consumers (create fans) – increase benefit to tenants

- Evolve a retail environment for securing stable sales – encourage CRM strategy and shopfront selling operations, etc.
- Update store functions to accommodate increase in tenant EC operations
- Apply ICT to increase effectiveness of the Stores Business – increase time for communication between tenants and customers

Medium-term Management Plan development by business: PARCO Stores Business ②

Use ICT to evolve customer policy
– expand customer sale conversion ratios, upgrade tenant services



Medium-term Management Plan development by business: Commercial Real Estate Production Business ①

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**Advance into new areas to contribute to local development
and secure greater profitability**

Small-scale commercial business development plan (5-year): 12 new openings

■ **ZERO GATE: 5 stores**

(Kyoto, Harajuku, Sannomiya, and 2 others)

■ **PARCO: 4 stores**

(Matsuzakaya Ueno New South Wing Store, new Shibuya PARCO, and 2 others)

■ **New formats: 3 stores**

(Okinawa, Kinshicho, and 1 other)

■ **Development expansion**

- Diversify business categories (ZERO GATE: adopt multi-tenant system, medium-to-high-end targets, etc.)
- Evolve business categories (Matsuzakaya Ueno New South Wing Store, new Shibuya PARCO)
- Diversify development framework (collaborations with outside companies, cyclical real estate investment model etc.)

Offer solutions and support growth for entrepreneurs

Utilize the expertise cultivated through collaboration in PARCO's Stores Business and offer a range of original services

(PARCO SPACE SYSTEMS) (PARCO Digital Marketing)

Development projects

-  Existing PARCO store
-  Existing ZERO GATE store
-  Scheduled to open in FY2017
-  Announced projects currently under development

*Shibuya PARCO Part 1 and Part 3 closed temporarily from August 2016
 *Chiba PARCO closed in November 2016
 *Otsu PARCO is scheduled to close in August 2017



Ueno
Matsuzakaya Ueno New South Wing Store
 Scheduled to open in Autumn 2017

Kinshicho
Kinshicho Ekimae Property
 Scheduled to open in the second half of 2018

Harajuku
Harajuku ZERO GATE
 Scheduled to open in Winter 2017

Kyoto
Kyoto ZERO GATE*
 Scheduled to open in 2017

Kobe
Sannomiya ZERO GATE*
 Opening date TBD

Shibuya
Udagawa-cho 15 Development Project
 Scheduled to open in autumn 2019



Okinawa
Urasoe West Coast Development
 Scheduled to open in Summer 2019



Provide urban stakeholders with *personal fulfillment, inspiration, and new lifestyles*

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- Expand business areas of specialized shop services
 - Expand shops in 4 existing and 8 new business categories
 - Improve profitability through full EC operations
 - Collaborate with external specialized shops on initiatives in new business areas

Entertainment Business

- Expand original live entertainment and globalize
 - Create a new entertainment space with the opening of the new Shibuya PARCO Theater
 - Raise familiarity in the global market by developing and distributing original content

Overseas businesses

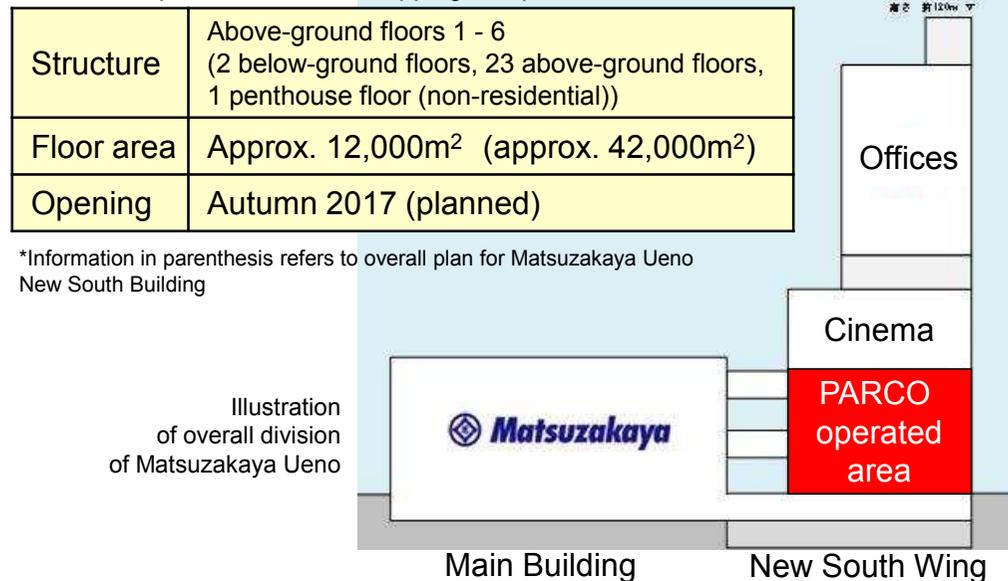
- Raise brand recognition in Asia (inbound and outbound)
 - Adapt PARCO Group content overseas
 - Overseas shopping centers and business owner collaboration

Leverage JFR Group assets to expand value provided

Engaging in an urban dominant strategy: Matsuzakaya Ueno New South Wing Store

- Evolve Stores Business to create new business categories in new markets
- Launch stores in multi-use complexes to develop new approaches to building operations

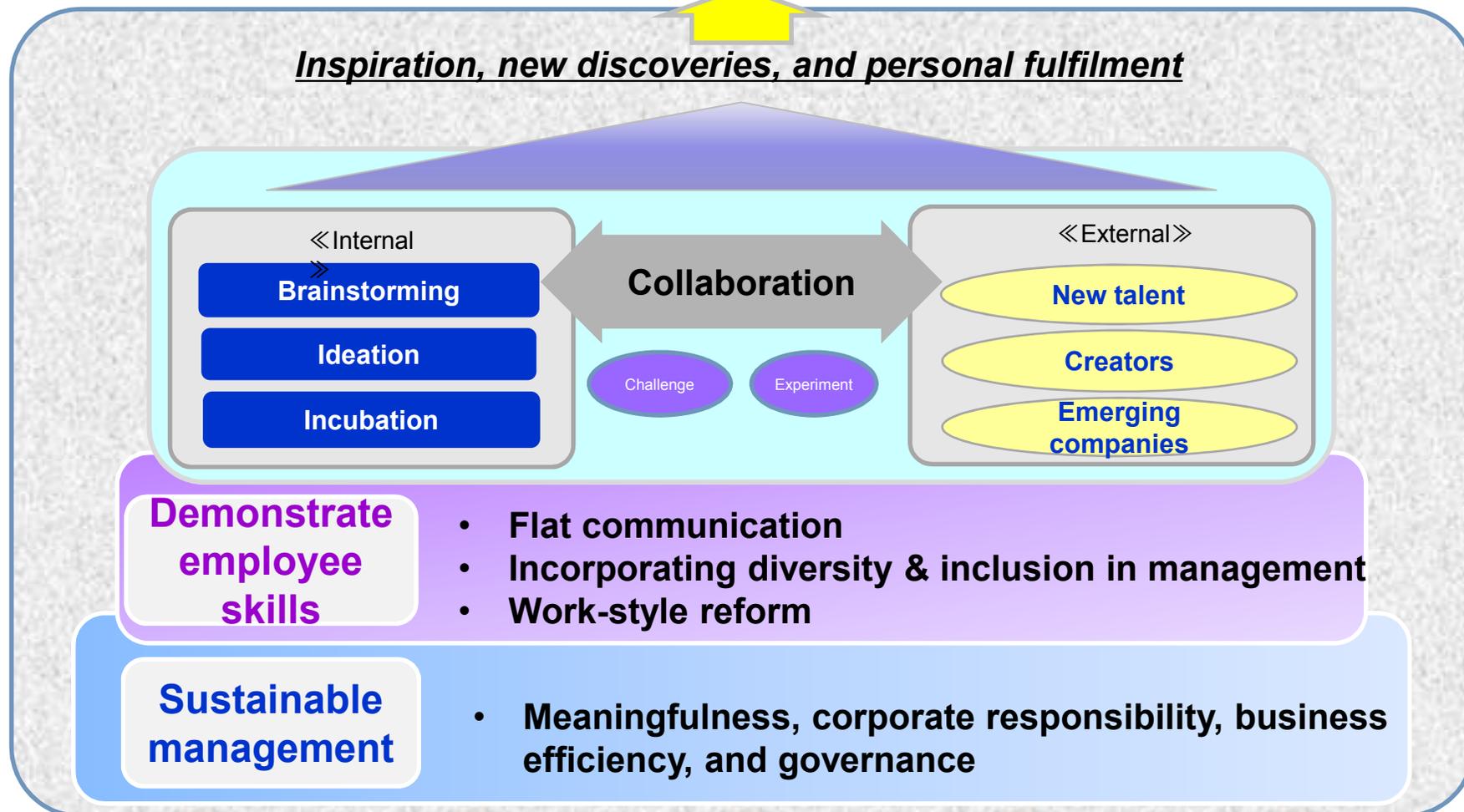
Overview of plan for PARCO shopping complex



Expand the PARCO Group's purpose in society, promote the development of a unique company culture, and improve sustainable business practices

Building a movement that exceeds market expectations

Inspiration, new discoveries, and personal fulfilment





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