

Quarterly Report FY 2017 Q3

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1 *Comments from the President*

In the third quarter of fiscal 2017, despite a decrease in revenue and profit caused by the temporary closure of Shibuya PARCO and the closures of Chiba PARCO and Otsu PARCO, we made steady progress towards our Medium-term Business Plan for 2017-2021 with the announcement of new store plans and the opening of a new PARCO store together with ZERO GATE.

In alignment with one of our core strategies, developing commercial real estate, we announced two new development initiatives: the Kinshicho Ekimae project in April and the North Building of Daimaru Shinsaibashi store in September. Including these new initiatives, 8 of the 12 development projects targeted in our Medium-term Business Plan are already underway. November saw the successful opening of our new PARCO store, PARCO_ya in Ueno, and part of Kyoto ZERO GATE also opened in the same month. The tenants for our Harajuku ZERO GATE have been decided in December, and steady progress has been made on the new construction of Sannomiya ZERO GATE, the new Shibuya PARCO, and across all development projects.

As part of our strategy to evolve the store brand, we've used ICT to expand our array of consumer and tenant services. In addition to introducing systems to gather information about the age, gender, and number of customers in our newly opened PARCO_ya store, we also carried out a proof-of-concept in PARCO_ya and Ikebukuro PARCO for robots that provide customers with store guidance and support tenants with inventory counting.

To expand soft content, we have purchased the distribution rights for "Loving Vincent," a movie filmed entirely as a moving oil painting, which has been nominated for an Annie Award and a Golden Globe. We also announced in December that a mini-theater will be opening in Kichijoji PARCO in winter 2018. 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.

2 Performance Overview

Consolidated operating revenue for the third quarter declined due to a fall in operating revenue as a result of the closure of stores in the Shopping Complex Business. While operating profit and profit attributable to owners of parent (hereafter, 'profit') decreased, plans were successfully achieved.

- Operating revenue decreased due to the effects from the temporary closure of Shibuya PARCO, the closure of Otsu PARCO at the end of this August, and the closure of Chiba PARCO in the previous year, despite positive contributions from the opening of Sendai PARCO 2 in July 2016, the opening of PARCO_ya this November, and an increase in construction orders for PARCO SPACE SYSTEMS.
- Although operating profit and quarterly profit decreased following effects from the sale of real estate in connection with the reconstruction of Shibuya PARCO in the previous year, it still exceed forecasts, and favorable progress was made towards the full year plan.

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

3 New store openings and store closures

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

For the Period	Millions of yen					
	FY 2017	FY 2016	Change	Change	FY 2016	FY 2016
	3Q	3Q			Ref:3Q	4Q
	IFRS	IFRS			Japanese GAAP	IFRS
Operating revenue(IFRS)/Net sales (Japanese GAAP)	¥ 68,252	¥ 69,496	¥ (1,243)	(1.8%)	¥ 199,599	¥ 93,780
Operating gross profit	22,267	23,765	(1,497)	(6.3%)	33,897	31,302
Operating profit(IFRS)/Operating income(Japanese GAAP)	9,660	12,500	(2,840)	(22.7%)	9,119	14,203
Profit(IFRS)/Net income(Japanese GAAP)	6,507	7,434	(927)	(12.5%)	5,503	8,795
Cash flows from operating activities *1	18,212	10,883	7,328	-	12,188	-
Cash flows from investing activities *1	(9,093)	(9,181)	88	-	(10,448)	-
Cash flows from financing activities *1	(10,088)	(1,970)	(8,117)	-	(2,012)	-
EBITDA *1,2	16,439	13,815	(2,624)	(16.0%)	13,111	-
At the Period End *3						
Total assets	274,620	-	25,814	-	-	248,806
Net assets	124,789	-	4,188	-	-	120,600
Interest-bearing debt	50,590	-	(7,571)	-	-	58,162
Per Share Data						
Profit	64.14	73.28	(9.14)	(12.5%)	54.25	86.68

Consolidated Results by Segment *4,5				Millions of yen	
	FY 2017 3Q	Change	Change		
Shopping Complex Business (PARCO, PARCO (Singapore))					
Operating revenue	¥ 38,235	¥ (2,528)	(6.2%)		
Segment profit	9,465	(2,568)	(21.3%)		
Retail Business (NEUVE A)					
Operating revenue	15,179	(14)	(0.1%)		
Segment loss	(305)	(244)	-		
Space Engineering and Management (PARCO SPACE SYSTEMS)					
Operating revenue	16,781	1,420	9.2%		
Segment profit	693	168	32.2%		
Other Business (PARCO Digital Marketing, PARCO's Entertainment Business)					
Operating revenue	4,689	88	1.9%		
Segment loss	(122)	(141)	-		
Total					
Operating revenue	74,886	(1,033)	(1.4%)		
Segment profit	9,730	(2,786)	(22.3%)		
Consolidated (after adjustment)					
Operating revenue	68,252	(1,243)	(1.8%)		
Segment profit	9,660	(2,840)	(22.7%)		

Millions of yen			
	FY 2017 3Q	Change	Change
Selling, general and administrative expenses			
Total SG&A	¥ 14,060	¥ 360	2.6%
Personnel	5,987	(4)	(0.1%)
Lease/rental	2,152	82	4.0%
Advertising	530	66	14.3%
Agency services	848	15	1.9%
Depreciation	634	16	2.7%
Taxes and dues	594	149	33.6%

Millions of yen		
	FY 2017 3Q	Change
Finance income and costs		
Share of loss of entities accounted for using equity method		
Finance income	¥ 103	¥ (27)
Interest income	100	(27)
Finance costs (Interest paid)	241	(34)
Share of loss of entities accounted for using equity method		
	22	(309)

Millions of yen			
	FY 2017 3Q	Change	Main factors
Other income and expense			
Other income			
Compensation income	¥ 2,204	¥ (1,424)	
Gain on sales of non-current assets	1,463	975	Compensation related to Shibuya redevelopment
Others	0	(2,843)	Sale of land related to Shibuya redevelopment last year
Other expense	740	465	Reversal of impairment loss on closure of Otsu PARCO etc.
Other expense			
Loss on disposal of noncurrent assets	751	(419)	
Impairment loss	429	(51)	Renovation of PARCO stores
Others	240	72	Impairment related to NEUVE A stores
	81	(440)	Sale of land related to Shibuya PARCO last year etc.

*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					
	FY 2017	FY 2016	Change	Change	FY 2016	FY 2016
	3Q	3Q			Ref: 3Q	4Q
For the Period	IFRS				Japanese GAAP	IFRS
Operating revenue	¥ 42,160	¥ 44,578	¥ (2,417)	(5.4%)	¥ 179,289	¥ 58,991
Operating gross profit	13,929	15,421	(1,492)	(9.7%)	26,208	19,803
Operating profit	9,288	10,318	(1,030)	(10.0%)	8,510	11,338
Profit	6,571	6,447	123	1.9%	4,507	7,380
At the Period End *1						
Total assets	270,407	-	24,604	-	-	245,802
Net assets	123,846	-	4,224	-	-	119,621

	Millions of yen		
	FY 2017 3Q	Change	Change
Selling, general and administrative expenses			
Total SG&A	¥ 6,281	¥ 345	5.8%
Personnel	2,767	101	3.8%
Lease/rental	416	44	11.9%
Advertising	247	69	39.0%
Agency services	719	(10)	(1.5%)
Depreciation	300	4	1.6%
Taxes and dues	418	105	33.7%

	Millions of yen	
	FY 2017 3Q	Change
Finance income and costs		
Finance income	¥ 389	¥ 242
Interest income	104	(23)
Dividend income *2	284	265
Finance costs (Interest paid)	250	(29)

	Millions of yen	
	FY 2017 3Q	Change
PARCO Tenant Transaction Volume by Store *3		
Urban store group		
Sapporo PARCO	¥ 9,937	(1.4%)
Sendai PARCO	14,759	15.1%
Ikebukuro PARCO	21,163	4.1%
Shibuya PARCO *4	828	(90.5%)
PARCO_ya Ueno *5	686	-
Shizuoka PARCO	7,770	(1.0%)
Nagoya PARCO	25,362	(9.8%)
Hiroshima PARCO	12,162	(3.2%)
Fukuoka PARCO	16,274	3.2%
9 store total	108,945	(6.3%)
Community store group		
Utsunomiya PARCO	2,302	(17.6%)
Urawa PARCO	18,344	1.0%
Shin-Tokorozawa PARCO	8,058	3.3%
Tsudanuma PARCO	7,892	4.9%
Hibarigaoka PARCO	6,240	2.6%
Kichijoji PARCO	7,234	3.3%
Chofu PARCO	14,072	1.9%
Matsumoto PARCO	5,531	(5.7%)
Otsu PARCO *6	2,297	(35.6%)
Kumamoto PARCO	3,832	(16.8%)
10 store total	75,809	(8.2%)
Total *7	184,755	(7.1%)
Existing store total *8	176,269	(1.3%)

	Millions of yen		
	FY 2017 3Q	Change	Main factors
Other income and expense			
Other income	¥ 2,197	¥ (42)	
Compensation income	1,463	975	Compensation related to Shibuya redevelopment
Gain on sales of non-current assets	0	(1,465)	Sale of land related to Shibuya redevelopment last year
Others	733	447	Reversal of impairment loss on closure of Otsu PARCO etc.
Other expense	557	(849)	
Loss on disposal of noncurrent assets	433	(57)	Renovation of PARCO stores
Impairment loss	35	(2)	Impairment of Utsunomiya PARCO
Others	88	(790)	Sale of land related to Shibuya PARCO last year etc.

*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 PARCO_ya Ueno was opened November 4, 2017

*6 Otsu PARCO was closed August 31, 2017

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

*8 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
Womenswear	(8.8%)
Menswear	(5.4%)
General clothing	(1.2%)
Clothing	(6.0%)
Shoes	(7.6%)
Bags	(5.6%)
Accessories	(5.4%)
Cosmetics	4.6%
Personal items	(3.1%)
Sundry goods	6.9%
Foods	(4.0%)
Restaurants	3.3%
Other (service, etc.)	4.8%

Paying customers, Average spend per customer	Change
Paying customers	(0.8%)
Average spend per customer	(0.5%)

	Millions of yen		
	FY 2017 2Q	Change	Share in sales
Credit card sales amount *1			
Credit card	¥82,076	0.5%	45.4%
PARCO Card	43,034	(1.4%)	23.8%

Renovation *2	
Number of sections	270
Of which are new store sections	160
Renovated area	Approx. 33,000㎡
Zone sale YoY comparison	28.7%

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.			
Total stores	(6.2%)	(11.2%)	(4.7%)			
Existing stores	(1.6%)	(6.5%)	(1.6%)			

	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		10.3%	35.6%	61.7%	147.3%	34.7%
Share of total sales of each store accounted		11.1%	3.8%	2.6%	1.3%	1.6%
YoY change in share of total sales of each store accounted		+1.1%	+0.9%	+0.9%	+0.8%	+0.4%

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	¥42,160	¥15,179	¥16,781	¥666	¥106
Operating profit	9,288	(305)	693	71	(48)
Profit	6,571	(206)	476	49	(48)
Ownership ratio by PARCO	-	100%	100%	100%	100%

NEUVE A

Revenue and profit decreased due to sluggish performance at highly profitable businesses and a decrease in the number of stores compared to the same period in the previous year.

PARCO SPACE SYSTEMS

Revenue and profit increased due to an increase in interior design and electrical construction orders, as well as several new unplanned orders.

PARCO Digital Marketing

Revenue decreased as a result of the withdrawal of the human resources business, but profit increased due to the contribution of projects acquired in the previous year along with a streamlining of SGA expenses.

PARCO (Singapore)

Projects including the Japanese restaurant zone progressed smoothly. Orders were received for design consultation for a commercial facility in Ho Chi Minh City, Vietnam

PARCO
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