

PARCO

Quarterly Report
FY 2014 Q1

Performance Overview

In the first quarter under review—the three-month period ended May 31, 2014—the PARCO Group achieved year-on-year increases in sales and income for the third consecutive year. Income of PARCO., LTD. also reached a record high. Contributing factors included a healthy performance by PARCO stores, the full-term operation of the ZERO GATE business, and the proactive opening of stores in the retail business. The PARCO Group appears to have overcome the effects of the increase in consumption tax.

- **Tenant sales at PARCO stores (nonconsolidated basis) were 2.9% higher than the previous corresponding period, with both Urban stores and Community stores generating year-on-year sales growth.**

Sales at Urban stores rose steadily thanks to a proactive renovation program to meet customer needs. For the quarter, the renovation program covered 17.6% more tenant floor space with tenants than the previous corresponding quarter. By month, sales rose 11.3% year on year in March, declined 5.2% in April (due to a recoil following the rush in demand ahead of the consumption tax hike), and grew 1.5% in May.

Owing to the special features of our stores, which offer good product selections and propose appealing lifestyle scenarios to urban customers, sales appear to have recovered in May. This shows that both the demand rush ahead of the consumption tax hike and the recoil thereafter had a limited effect.

Shibuya PARCO, Fukuoka PARCO, Urawa PARCO, and other stores with an optimal balance of offerings to meet customer needs enjoyed healthy sales growth. Shibuya PARCO, our flagship store, stepped up its global communications, and Sapporo PARCO, which attracts numerous tourists from overseas, benefited from higher inbound demand. Both stores achieved healthy sales as a result. Popular items included personal items, especially bags with some hit products, as well as sundry goods and restaurants.

- **The operation of three ZERO GATE stores that opened in the previous fiscal year contributed for the full term to our performance in the quarter.**
- **New stores opened by NEUVE A CO., LTD. in the retail business contributed to a rise in gross profit.**
- **Operating income expanded 8.3% year on year, and net income grew 3.8%. Our full-year forecasts for fiscal 2014, ending in February 2015, remain unchanged.**

Comments from the President

The PARCO Group has an impressive track record as a developer and operator of shopping complexes, specializing mainly in fashion. While developing and operating these shopping complexes, we have offered distinctive PARCO WAY lifestyle scenarios to our customers through cultural and other business endeavors. Our long-term vision for 2020 calls for the Group to become “Designers of unique offerings for 24/7 urban life” and “Creative drivers of urban evolution.”

A notable feature of the first quarter was the limited impact of the consumption tax hike, which had been a cause for concern. This illustrates the distinctive consumption trends of PARCO customers. The rush in demand in March was slightly better than expected but the recoil in April was restrained, while sales in May were mostly unchanged. For the quarter, therefore, we posted increased revenue and earnings for the third consecutive year. We believe that this demonstrates that our store development efforts over the past several years have produced results steadily.

Both our Urban stores and Community stores enjoyed brisk sales. Among Urban stores, Shibuya PARCO, Sapporo PARCO, and Fukuoka PARCO performed particularly well. We think these good results at both Urban and Community stores underscore the success of business reforms over recent years, which categorized our PARCO stores into two types: Urban stores and Community stores. Another contributor to our overall performance was the new ZERO GATE business, launched on a full-term basis in the previous fiscal year.

The PARCO Group’s new medium-term business plan, which started in 2014, is now running smoothly. Since my student days, I have taken a keen interest in PARCO as a company that conveys its own unique culture. In the years ahead, I wish to further refine PARCO’s distinctive features and continue building appealing, bustling stores for customers around the world. Please stay tuned to PARCO’s progress.

Kozo Makiyama

President and Representative Executive Officer

3

Main Store-Opening Plans and Initiatives

2014 (autumn)

Scheduled opening of **Nagoya ZERO GATE** (provisional name) and **Fukuoka PARCO New Building**

2015 (spring)

Scheduled addition of floor space at **Fukuoka PARCO**

2016 (spring)

Scheduled opening of **Sapporo ZERO GATE** (provisional name) and at **Sendai New Building**

2017 (autumn)

Scheduled opening of **a new store in Ueno**

4

Financial Highlights

Millions of yen

	FY 2014	FY 2013	FY 2013
	Q1	Q1	Q1
For the Period			
Net sales	¥ 67,670	¥ 65,282	¥264,384
Operating income	3,011	2,781	12,196
Operating margin	4.4	4.3	4.6
Net income	1,647	1,587	6,778
EBITDA	4,398	4,205	18,052
Cash flows from operating activities	4,221	1,468	9,864
Cash flows from investing activities	(417)	(23,023)	(27,886)
Cash flows from financing activities	(3,807)	17,263	11,049
Cash and cash equivalents at end of period	3,536	6,192	3,529
At the Period End			
Total assets	¥226,096	—	¥220,757
Net assets	109,380	—	108,823
Per Share Data			
Net income (yen)	¥ 16.23	¥ 15.65	¥ 66.81

Results by Segment

	Millions of yen			
	FY 2014	Q/Q change	Q/Q change	
	Q1	¥	%	%
Shopping Complex Business				
Net sales	¥61,364	¥1,834	3.1%	
Segment income	2,831	239	9.2%	
Retail Business				
Net sales	4,789	489	11.4%	
Segment income	130	80	161.4%	
Space Engineering and Management Business				
Net sales	4,888	55	1.2%	
Segment income	96	(17)	(15.6%)	
Other Business				
Net sales	1,817	316	21.0%	
Segment income	(16)	(63)	—	
Consolidated				
Net sales	68,696	2,498	3.8%	
Segment income	3,011	229	8.3%	

Credit Card

	Millions of yen
	FY 2014 Q1
Credit card sales	¥29,188
PARCO Card sales	15,125
Number of PARCO Card members (thousands)	1,706

Nonconsolidated Tenant Sales by Store

	Millions of yen	
	FY 2014	Change
	Q1	%
Urban store group		
Sapporo PARCO	¥ 2,872	9.0%
Sendai PARCO	3,328	0.9%
Ikebukuro PARCO	7,080	1.2%
Shibuya PARCO	3,707	8.9%
Shizuoka PARCO	2,473	(2.2%)
Nagoya PARCO	8,746	2.3%
Hiroshima PARCO	4,283	3.4%
Fukuoka PARCO	3,248	11.7%
8 store total	35,741	3.7%
Community store group		
Utsunomiya PARCO	¥ 1,154	(5.9%)
Urawa PARCO	4,562	8.4%
Shin-Tokorozawa PARCO	2,336	6.5%
Chiba PARCO	1,484	(8.5%)
Tsudanuma PARCO	2,311	(1.6%)
Hibarigaoka PARCO	1,980	2.3%
Kichijoji PARCO	1,921	(0.6%)
Chofu PARCO	4,377	0.8%
Matsumoto PARCO	1,899	4.2%
Otsu PARCO	1,145	1.3%
Kumamoto PARCO	1,323	2.9%
11 store total	¥24,496	1.8%
Total	¥60,238	2.9%

Amid a moderate domestic economic recovery, Japan's economic environment during the first quarter under review benefited from a rise in visitors from overseas, especially Asia, which caused consumption to bottom out. By contrast, personal consumption remained unstable due to a rush in demand ahead of the consumption tax hike and a subsequent recoil in demand.

Under these conditions, the PARCO Group moved ahead under its new medium-term business plan, covering the three-year period from March 2014 to February 2017. The current fiscal year is the first year of the plan.

During the quarter, we decided to open a new commercial complex near the West Exit of Sendai Station, to expand our presence in urban areas. We also forged ahead with plans to open two stores in the autumn of 2014: the Fukuoka PARCO New Building (provisional name) and Nagoya ZERO GATE (provisional name). At existing PARCO stores, meanwhile, we carried out renovations based on the specific features of each outlet, as well as proactive sales promotions centered on the PARCO Card. In our retail business, we opened new outlets and stepped up sales promotions, addressing changes in the business environment caused by the consumption tax hike.

For the quarter, the Group posted consolidated net sales of ¥67,670 million, up 3.7% from the previous corresponding period. Operating income increased 8.3%, to ¥3,011 million, and net income rose 3.8%, to ¥1,647 million.

Shopping Complex Business

In this segment, sales increased 3.1%, to ¥61,364 million, and operating income rose 9.2%, to ¥2,831 million.

With respect to existing PARCO stores, we continued transforming our business model aimed at advancing and distinguishing our stores as either Urban stores^(Note 1) or Community stores^(Note 2). We also actively renovated existing stores, mainly Urban stores, to expand our core target market. During the quarter, we renovated about 18,000 square meters of tenant floor space, and sales from newly renovated zones rose 33.1% year on year. Main store renovations are summarized below.

Shibuya PARCO

During the period, we actively introduced trend-setting stores that fuse fashion and culture and embrace the theme of global communications. In the main building Shibuya PARCO PART 1, we introduced edgy, trend-setting fashion brands on the second floor and select shops on the third floor.

Nagoya PARCO

Seeking to establish a building offering comprehensive lifestyle scenarios, we introduced a diversity of shops in Nagoya PARCO. In the West Building, we introduced high-quality fashion shops in the ladies' zone on the third floor. We also completely renovated the fifth floor of the South Building, transforming it into a lifestyle-oriented floor featuring interior items, sundry goods, and cafés, in addition to fashion shops.

Fukuoka PARCO

During the quarter, we introduced newsy shops as part of our overall plan to position Fukuoka PARCO as a new landmark in the Tenjin area of the city. This plan entails opening a new building in the autumn of 2014 and extending floor space into an adjacent building in the spring of 2015. On the ground floor, we opened a café as its first chain in the Kyushu region and undertook a renewal of core tenants on the upper floors. By boosting our customer-attraction and customer-retention powers in these ways, we rejuvenated the entire building.

Note 1: Urban stores consist of Sapporo PARCO, Sendai PARCO, Ikebukuro PARCO, Shibuya PARCO, Shizuoka PARCO, Nagoya PARCO, Hiroshima PARCO, and Fukuoka PARCO.

Note 2: Community stores consist of Utsunomiya PARCO, Urawa PARCO, Shin-Tokorozawa PARCO, Chiba PARCO, Tsudanuma PARCO, Hibarigaoka PARCO, Kichijoji PARCO, Chofu PARCO, Matsumoto PARCO, Otsu PARCO, and Kumamoto PARCO.

With respect to sales strategies, in March 2014 we stepped up incentives for PARCO Card members to address demand ahead of the consumption tax hike. We also actively promoted such incentives in May, after the hike. As a result, total PARCO Card sales amounts in the quarter under review increased 9.7% year on year.

Continuing from the previous fiscal year, we actively promoted original, innovative ICT^(Note 3) initiatives. In addition to our PARCO tenant shop blogs, in certain shops we added a new e-commerce service called *Kaeru* PARCO, which enables customers to reserve and layaway goods in stock at shops. Now customers can enjoy purchasing items introduced in blog articles written by shop staff, 24 hours a day. Going forward, we will expand and upgrade such services, and attract customers over the Internet to create shopping opportunities at our real stores.

Note 3: Information and communication technology (ICT) refers to technologies and services in fields related to data processing and information transmission.

Retail Business

Sales in this segment rose 11.4%, to ¥4,789 million, and operating income jumped 161.4%, to ¥130 million.

NEUVE A CO., LTD., which handles this segment, pursued a proactive store-opening strategy, opening seven new stores during the period while stepping up sales promotions. These efforts led to higher sales and operating income.

Space Engineering and Management Business

In this segment, sales edged up 1.2%, to ¥4,888 million, while operating income declined 15.6%, to ¥96 million.

PARCO SPACE SYSTEMS CO., LTD., which handles this segment, has capitalized on its considerable expertise amassed through its experiences in commercial facilities. During the period, it attracted major real estate companies and other new clients, generating a year-on-year rise in sales.

Other Business

In the Other Business segment, sales grew 21.0%, to ¥1,817 million, and the operating loss was ¥16 million (versus operating income of ¥47 million in the previous corresponding period).

In the entertainment business, handled by PARCO CO., LTD., we held a number of contemporary stage plays, such as *Kokumin no Eiga* (written by and stage-managed by Koki Mitani) and *Manju Kowai* (written by Kankuro Kudo and stage-managed by Masahiko Kawahara). In a new initiative, we worked in collaboration with an outside company to open a communication café with a menu featuring popular character motifs, which drew considerable attention.

PARCO-CITY CO., LTD. generated an increase in sales to customers other than the PARCO Group in its Web-based consulting business. Due to a recoil in large-scale orders received in the previous corresponding period, however, its sales and operating income declined year on year.

6

Financial Position

Balance Sheets

At the end of the first quarter under review (May 31, 2014), total assets amounted to ¥226,096 million, up ¥5,339 million from the previous fiscal year-end (February 28, 2014). Main factors included an increase in notes and operating accounts receivable and a rise in property and equipment due to construction of the Fukuoka PARCO New Building (provisional name). For the quarter, total liabilities increased ¥4,781 million, to ¥116,715 million, due mainly to a rise in notes and operating accounts payable. Net assets grew ¥557 million, to ¥109,380 million.

Cash Flows

Cash and cash equivalents at the end of the quarter totaled ¥3,536 million, up ¥7 million from the previous fiscal year-end.

Net cash provided by operating activities amounted to ¥4,221 million, after accounting for income before income taxes and minority interests and non-asset-related items, such as depreciation and extraordinary income/losses.

Net cash used in investing activities totaled ¥417 million. Outflows were allocated mainly to purchase property and equipment for construction of the Fukuoka PARCO New Building (provisional name).

Net cash used in financing activities was ¥3,807 million, mainly reflecting repayment of interest-bearing debt and cash dividends paid.