

PARCO

Quarterly Report
FY 2014 Q2

Performance Overview

In the first half under review—the six-month period ended August 31, 2014—the PARCO Group achieved year-on-year increases in net sales and earnings for the third consecutive year, as a result of our continued strong performance as a group. We saw changes in consumer attitudes toward discount sales, which brought lower sales of clothes, the Group's core item, in June and July, but sales at PARCO shopping complexes and Neuve A stores were steady due to a rise in temperatures from end-July through August. Sales growth in the Entertainment Business and new Neuve A store openings also contributed to our operating performance in the fiscal-year first half.

- **Tenant sales at PARCO stores (nonconsolidated basis) were 0.5% higher than the previous corresponding period.**

The strong sales contributors were Sapporo PARCO, Shibuya PARCO, and Fukuoka PARCO, which attracted many tourists from overseas and benefited from higher inbound demand. These three Urban stores profited from refurbishments made to reach more diverse types of customers by offering a range of lifestyles that spread global communications and respond to inbound demand.

- **Full-term operation of the ZERO GATE business, launched during the previous fiscal year, contributed to our earnings for the first half.**
- **The entertainment business contributed to the rise in net sales and earnings as the result of a strong performance owing to successful productions at theaters.**
- **Ten new stores were opened by NEUVE A CO., LTD. in the first half of the fiscal year. The aggressive store openings contributed to higher net sales and earnings.**
- **Operating income expanded 6.6% compared to the first half of the previous fiscal year, and net income grew 10.4%. In terms of our full-year forecast for fiscal 2014, ending in February 2015, we revised operating income upward and revised net sales slightly downward compared to the forecast made at the start of the fiscal year.**

Comments from the President

A notable feature of the PARCO Group's financial results for the second quarter was the occurrence of an event that we took as a signal of change in customer attitudes toward fashion, while the impact of the consumption tax hike since the first quarter remained limited. Given the effects of the summer weather such as rainier weekends and lower temperatures, there was a decline in the ratio of discounted items—which had always been the largest portion of the total sales in each summer season—while the ratio of fashion items with unique designs rose continually despite the lack of discounts on prices even during the discount sales period.

Our analysis of the performance during the quarter found a steady impact from our efforts over the past several years to grow our stores' appeal. One example is Shibuya PARCO, our flagship store, where the enhancement of Japan Mode's integrated floors contributed to a strong sales performance, as we found it increasingly important to invest in initiatives that brought solid results.

Our focused initiatives included responding to inbound demand and information and communication technology (ICT). We will continue to proactively encourage inbound demand by introducing systems that promote tax-free programs for tenants in stores with high inbound demand. In addition, by enhancing a service linking stores and our online platform, we will create cutting-edge services that are convenient for both tenants and customers. In May 2014, we began offering new online services, enabling customers to reserve online as well as to make pick-ups at physical PARCO stores and mail-order online. In the second half of the fiscal year, these new services will become available in succession at eight Urban stores. Furthermore, from November, by using PARCO's official smartphone app, customers will be able to check for recommended items from PARCO's nationwide tenant staff, including influential fashion leaders, and it will be possible to reserve for pick-up or purchase some of these items.

In the second half of the fiscal year, we plan to open Nagoya ZERO GATE in October and the Fukuoka PARCO New Building in November. We have enjoyed smooth progress in line with our medium-term business plan, which began in fiscal 2014. We have already formulated development plans for several stores centered on our core Urban stores, to be launched after the end of this fiscal year and thereafter.

By investing aggressively ahead of the next era, the PARCO Group will continue its efforts to enhance its stores' appeal and attract customers from all over the world. Please stay tuned to PARCO's progress.

Kozo Makiyama

President and Representative Executive Officer

Main Store-Opening Plans and Initiatives

2014 (autumn)

Scheduled opening of **Nagoya ZERO GATE** in October and the **Fukuoka PARCO New Building** in November

2015 (spring)

Scheduled increase in floor space at **Fukuoka PARCO**, and opening of the adjacent **Nagoya PARCO West Building**

2016 (spring and early summer)

Scheduled opening of **Sapporo ZERO GATE (provisional name)** in the spring and the **Sendai PARCO New Building (provisional name)** in early summer

2017 (autumn)

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

Financial Highlights

Millions of yen

	FY 2014	FY 2013	FY 2013
	Q2	Q2	Q2

For the Period

Net sales	¥ 131,183	¥ 129,401	¥264,384
Operating income	6,319	5,926	12,196
Operating margin	4.8	4.6	4.6
Net income	3,619	3,280	6,778
EBITDA	9,118	8,797	18,052
Cash flows from operating activities	9,990	5,031	9,864
Cash flows from investing activities	(2,265)	(24,002)	(27,886)
Cash flows from financing activities	(7,002)	11,139	11,049
Cash and cash equivalents at end of period	4,257	2,661	3,529

At the Period End

Total assets	¥222,450	¥221,604	¥220,757
Net assets	111,411	106,166	108,823

Per Share Data

Net income (yen)	¥ 35.68	¥ 32.33	¥ 66.81
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Results by Segment

	Millions of yen			
	FY 2014	Q/Q change	Q/Q change	
	Q2	¥	%	%
Shopping Complex Business				
Net sales	¥118,836	¥ 729	0.6%	
Segment income	5,914	286	5.1%	
Retail Business				
Net sales	9,663	662	7.4%	
Segment income	282	57	25.3%	
Space Engineering and Management Business				
Net sales	9,232	239	2.7%	
Segment income	118	(13)	(10.0%)	
Other Business				
Net sales	3,130	669	27.2%	
Segment income	30	80	—	
Consolidated				
Net sales	133,165	1,904	1.5%	
Segment income	6,319	392	6.6%	

Credit Card

	Millions of yen	
	FY 2014 Q2	
Credit card sales	¥54,740	
PARCO Card sales	27,093	
Number of PARCO Card members (thousands)	1,703	

Nonconsolidated Tenant Sales by Store

	Millions of yen	
	FY 2014	Change
	Q2	%
Urban store group		
Sapporo PARCO	¥ 5,668	5.8%
Sendai PARCO	6,349	(1.3%)
Ikebukuro PARCO	13,766	(1.5%)
Shibuya PARCO	7,337	8.1%
Shizuoka PARCO	4,908	(2.8%)
Nagoya PARCO	16,794	(1.5%)
Hiroshima PARCO	8,154	0.2%
Fukuoka PARCO	6,443	9.6%
8 store total	69,424	1.1%
Community store group		
Utsunomiya PARCO	¥ 2,219	(6.5%)
Urawa PARCO	8,830	4.6%
Shin-Tokorozawa PARCO	4,447	5.1%
Chiba PARCO	2,967	(10.5%)
Tsudanuma PARCO	4,477	(3.1%)
Hibarigaoka PARCO	3,750	(0.3%)
Kichijoji PARCO	3,722	(2.2%)
Chofu PARCO	8,407	(0.5%)
Matsumoto PARCO	3,685	1.5%
Otsu PARCO	2,190	(1.3%)
Kumamoto PARCO	2,550	0.4%
11 store total	¥47,249	(0.3%)
Total	¥116,674	0.5%

During the first half of the fiscal year, the domestic consumption environment, amid a moderate economic recovery, benefited from a rise in visitors from overseas, especially Asia, which caused consumption to bottom out. But on the other hand, personal consumption remained unstable due to rush in demand ahead of the consumption tax hike and a subsequent drop 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 first half, to expand our shopping complex in urban areas, we decided to open a new commercial facility located in front of the West Exit of Sendai Station and to open stores in the new building adjacent to Nagoya PARCO. We also forged ahead with project to open two stores in the autumn of 2014: the Fukuoka PARCO New Building and Nagoya ZERO GATE. At existing PARCO stores, meanwhile, we carried out renovations based on the specific features of each complex, as well as proactive sales promotions centered on the PARCO Card. In our retail business, we opened new outlets and stepped up sales promotions, responding to changes in the business environment caused by the consumption tax hike.

As a result of these initiatives, in the first half under review, the Group posted consolidated net sales of ¥131,183 million, up 1.4% from the previous corresponding period. Operating income increased 6.6%, to ¥6,319 million, and net income rose 10.4%, to ¥3,619 million.

Shopping Complex Business

In this segment, net sales increased 0.6%, to ¥118,836 million, and operating income rose 5.1%, to ¥5,914 million.

With respect to existing PARCO stores, to distinguish our stores from the competitors, we continued to focus our measures to evolve 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, to strengthen our offer for lifestyle and to respond to inbound demands.

During the first half of the fiscal year, we renovated about 25,000 square meters of floor space, and sales from newly renovated zones jumped 25.6% compared to the same period of the previous fiscal year. The 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 PART 1, we introduced trend fashion brands and leading select shops. In the autumn renovations, we introduced a new business category shop for Japanese leading mode fashion of PART 1.

Nagoya PARCO

Looking ahead to the opening of Nagoya ZERO Gate in October, we implemented a large-scale renewal mainly in the West Building and East Building that celebrate the 25th anniversary of the opening. In the autumn renovation, we expanded the first basement of the West Building, a original concept floor containing sundry goods, cosmetics and a café by linking to the first basement of the East Building. In addition, through renovations in a total of 88 shops, including the introduction of a new business category of restaurants that sell organic foods and offer some chef's particular dishes, Nagoya PARCO now offers lifestyles not only fashion.

Fukuoka PARCO

Looking ahead to the opening of the New Building in November 2014 and the extension of floor space into an adjacent building in the spring of 2015, we implemented renovations in the Main Building to enhance the ease of circulating within the new buildings. In the spring renovations, we opened our first café in the Kyushu region on the ground floor, and undertook a renewal of core tenants on the upper floors. In the autumn renovations, we introduced select shops that place emphasis on design.

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 respond to demand ahead of the consumption tax hike. We succeeded in acquiring new members and boosting the number of Class S members (customers in good standing with high loyalty). As a result, total PARCO Card sales amounts in the first half under review increased 8.0% year on year.

As part of measures to respond to the rising number of tourists from overseas, and to boost our appeal to new customers, we introduced shops that were popular among foreigners and pushed our sales promotions forward aggressively mainly at Shibuya PARCO and Sapporo PARCO, where we saw high inbound demand.

Continuing from the previous fiscal year, we actively promoted original, innovative ICT(Note 3) initiatives. In May, in addition to the launch of our PARCO tenant shop blogs, we began offering new online services, that enables customers to reserve online as well as to make pick-ups at physical PARCO stores and mail-order online. Furthermore from November, by using PARCO's official smartphone app "POCKET PARCO", customers will be able to check for recommended items from PARCO's nationwide tenant staff, including influential fashion leaders, and it will be possible to reserve for pick-up or purchase some of these items. Through this app, we will introduce a service that displays tailored information on goods for each of our customers and that offers more enjoyable and convenient shopping experience for customers.

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

Retail Business

Sales of NEUVE A CO., LTD., in this segment rose 7.4%, to ¥9,663 million, and operating income soared 25.5%, to ¥282 million. Both sales and operating income increased compared to the same period of the previous fiscal year, supported by strong performance of new stores that opened in the new commercial facility in urban areas and of select shops for sundry goods, our new business category, as well as steady growth of existing stores.

Space Engineering and Management Business

In this segment, sales by PARCO SPACE SYSTEMS CO., LTD., edged up 2.7%, to ¥9,232 million, while operating income declined 10.1%, to ¥118 million.

Capitalizing on considerable expertise and technologies amassed in commercial facilities, we obtained new clients including a major real estate company, generating a sales increase from the same period of the previous fiscal year. However, operating income fell due to lower orders from the existing major clients.

Other Business

In the Other Business segment, sales grew 27.2%, to ¥3,130 million, and operating income was ¥30 million (versus an operating loss of ¥49 million in the previous corresponding period).

In the entertainment business, handled by PARCO CO., LTD., we held a number of contemporary stage plays. Furthermore, we opened a collaboration café featuring popular characters, resulting in growth in both net sales and operating income compared to the same period of the previous fiscal year.

PARCO-CITY CO., LTD. generated an increase in sales to outside customers in its Web-based consulting business. However, compared to the previous corresponding when we received large-scale orders, net sales and operating income declined compared from the same period of the previous fiscal year.

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Financial Position

Balance Sheets

Total assets as of the end of the first half under review increased ¥1,693 million from the end of the previous fiscal year, to ¥222,450 million, mainly due to increases in notes receivables, accounts receivables, and plant and equipment accompanied by the new construction of the Fukuoka PARCO New Building. Liabilities decreased ¥894 million compared to the end of the previous fiscal year, to ¥111,039 million. This principally reflected the repayment of interest-bearing debt. Net assets increased ¥2,588 million to ¥111,411 million.

Cash Flows

Cash and cash equivalents the end of the first half totaled ¥4,257 million, up ¥728 million from the previous fiscal year-end.

Net cash provided by operating activities amounted to ¥9,990 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 ¥2,265 million. Outflows were allocated mainly to purchase property and equipment for construction of the Fukuoka PARCO New Building.

Net cash used in financing activities was ¥7,002 million, mainly reflecting repayment of interest-bearing debt and cash dividends paid.